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Supreme Court, U.S.
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No. _____

IN THE

SUPREME COURT OF THE UNITED STATES

October Term, 1996

CMI, INC.

Petitioner

vs.

INTOXIMETERS, INC.,
MACQUORN FORRESTER,
GLENN FORRESTER,
RANKINE FORRESTER,
NATIONAL PATENT ANALYTICAL SYSTEMS, INC., and
JOHN D. FUSCO

Respondents

On Petition for Writ of Certiorari
To The United States Court of Appeals
For the Federal Circuit

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED

1. Whether a conflict currently exists amongst the federal Circuit Courts of Appeal regarding the interpretation of the 'bright line rule' set forth in Budinich v. Becton Dickinson & Co., 486 U.S. 196, 108 S.Ct. 1717, 100 L.Ed.2d 178 (1988), and whether any exceptions exist to that rule which can be promulgated and followed by the Circuit Courts of Appeal;

2. Whether the United States Court of Appeals for the Federal Circuit, in dismissing the Appeal of the Petitioner, CMI, Inc., against the Respondents, Intoximeters, Inc., Macquorn Forrester, Glenn Forrester, Rankine Forrester, National Patent Analytical Systems, Inc., and John D. Fusco, under its Action Nos. 96-1353, 1357, substantially departed from the accepted and usual course of judicial proceedings, and/or sanctioned such a departure by the United States District Court for the Western District of Kentucky, in Action No. 3:93CV-265-H, as to call for an exercise of this Court's supervisory powers.

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The Petitioner, CMI, Inc., by counsel, respectfully petitions for a writ of certiorari to review the Judgment and Orders of the United States Court of Appeals for the Federal Circuit in this case.

OPINIONS BELOW

The Opinions of the Court of Appeals dismissing the Petitioner's Appeal (Appendix F, infra.) and denying the Petitioner's Motion to Reconsider that dismissal (Appendix G, infra.) are unreported. Two (2) of the relevant Opinions of the District Court (Appendices A and B respectively) were reported at 866 F.Supp. 342 (W.D. Ky, 1994) and 918 F.Supp. 1068 (W.D. Ky, 1995). The other relevant Opinions and Orders of the District Court (Appendices C, D, E, and H, respectively) were unreported.

JURISDICTION

The Court of Appeals entered its Order denying the Petitioner's Motion to Reconsider the Court of Appeals Order (entered on August 20, 1996), on December 16, 1996 (App. G, infra.). The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

STATUTORY PROVISIONS INVOLVED

This case initially involved questions relating to 28 U.S.C. §2201, 35 U.S.C. §§ 102, 103, 112, and 285, and the validity of U.S. Patent No. 4,495,418 (the '418 patent'). However, these statutes are not directly relevant to the issues presented to this Honorable Court, and are not submitted with the Appendix.

STATEMENT OF THE CASE

I. Facts and Procedural History - District Court

Petitioner, CMI, Inc. ("CMI"), filed its original Complaint on April 22, 1993, in the United States District Court for the Western District of Kentucky, alleging nine separate counts involving various tort, damage and patent claims against the Respondents herein. Jurisdiction of the subject matter of CMI's Complaint was vested in that Court under Title 28, United States Code, Section 1332; the Federal Declaratory Judgment Act, Title 28, U.S.C., Section 2201, Section 2202; the laws of the United States concerning civil actions arising under any Act of Congress relating to patents, Title 28, U.S.C. 1338 (a), particularly that Act of Congress under Title 35 of the United States Code and United States Code, Title 18, Section 1964(a).

The District Court, upon its own Motion, bifurcated the litigation by Order entered September 14, 1993, between a trial of the patent issues raised by Count VI of CMI's Complaint; and a trial on the remaining tort issues and damage claims averred under Counts I, II, III, IV, V, VII, VIII and IX of the Complaint.

On July 6-15, 1994, a Jury Trial was held before the District Court on all issues relating to Count VI of CMI's Complaint. On November 1, 1994, the District Court issued a Memorandum Opinion and Order, setting forth its findings of fact and conclusions of law relating to the issues tried by the Jury on July 6-15, 1994. That Memorandum Opinion and Order was certified for publication by the District Court as CMI, Inc. v. Intoximeters, Inc., 866 F.Supp. 342 (W.D. Ky, 1994), and is attached hereto as Appendix 'A'. The validity of the '418 patent was upheld by the District Court based upon the verdict of the Jury and the Court's assessment of CMI's claims of inequitable conduct. The District Court further held that CMI had not infringed the '418 patent with its Intoxilyzer 5000 breath alcohol product. The District Court set forth specific findings of fact in its Opinion which were relevant to *both* the issues tried before the Court and the (at that time) remaining/unresolved tort issues in the case, as all legal issues in

the litigation were to be decided based upon the **identical** sets of facts.

On November 16, 1995, the District Court issued an Opinion and Order granting the Respondents herein Summary Judgments under all of the tort Counts set forth by CMI (as certified for publication by the District Court as CMI, Inc. v. Intoximeters, Inc., 918 F.Supp. 1068 (W.D. Ky, 1995) - attached hereto as Appendix 'B'). However, that Order specifically 'reserved' the issue as to whether exceptional circumstances should be found to exist under 35 U.S.C.S. §285 for later decision, subject to briefing by the parties. The District Court noted in its Opinion that the case was not yet 'final'; and, in addition, by Order entered November 8, 1995, the District Court **continued** the trial originally scheduled for November 13, 1995, and set a detailed briefing schedule on the issue of exceptional circumstances (Order attached as Appendix 'C').

On April 1, 1996, the District Court entered an Opinion and Order refusing to label the litigation to be "exceptional" for the purposes of awarding CMI its attorney's fees from the first phase of the case, but the Order entered with that April 1, 1996, Opinion failed to indicate that the District Court's prior Opinions and Orders in the litigation were thereby rendered to

be 'final and appealable'. On April 5, 1996, CMI moved the District Court to alter and amend its April 1, 1996 Order, to so indicate that 'finality' (as explained below), and, on April 15, 1996, the District Court thereby issued an Order rendering *all* of its opinions and orders in the litigation 'final and appealable'; it was only at that point that the *entire* case became 'ripe for appeal'. (April 1, 1996, Opinion/Order attached as Appendix 'D'; April 15, 1996 Order attached as Appendix 'E').

II. Procedural History - Federal Circuit Court of Appeals

CMI thereafter appealed the case to the United States Court of Appeals for the Federal Circuit pursuant to 28 U.S.C.S. §1295(a)(1), on May 7, 1996. The Federal Circuit dismissed CMI's appeal by Order entered on August 20, 1996 (attached as Appendix 'F'), ruling that CMI's May 7, 1996 appeal was untimely due to the primary fact that the November 16, *1995* Opinion and Order of the District Court was determined to be 'final', in the Court of Appeals eyes', as of that date. The Federal Circuit further concluded that, **despite** the District Court's specific acts to (1) enter an Order, at CMI's behest, that *all* of its Opinions and Orders were rendered final and appealable on April 15, 1996, and (2) to **mark out** the April 1,

1996 date presented on CMI's tendered order and replace the same with an April 15, 1996, date, CMI's appeal was further 'untimely' as to the District Court's exceptional circumstances Opinion dated April 1, 1996.

CMI moved the Federal Circuit Court of Appeals to reconsider that Order, and, on December 16, 1996, CMI's Motion for Reconsideration was denied (Order attached as Appendix 'G'). That denial occurred despite the fact that the District Court specifically entered an Order on October 18, 1996, responding to CMI's collateral FRCP 60 Motion to the District Court, stating that the Court did *not* intend to create an appealable order on November 16, 1995 (Order attached as Appendix 'H'). CMI thereby respectfully petitions this Court for a writ of certiorari to review the Orders of the United States Court of Appeals for the Federal Circuit.

REASONS FOR GRANTING THE PETITION

Before setting forth each of the specific arguments authorizing this Court to grant CMI's Petition in this matter, it is incumbent upon this Honorable Court to understand the legal ramifications and rationale of the actions taken by the District and Circuit Courts, which have a direct impact on the questions

presented for review. Once those items are summarized, it can then become perfectly clear that (1) a conflict exists amongst the Circuit Courts of Appeal with reference to the existence of specific exceptions to the 'bright line rule' set forth in this Court's decision in Budinich v. Becton Dickinson & Co., 486 U.S. 196, 108 S.Ct. 1717, 100 L.Ed.2d 178 (1988), making the need for guidance from this Court on that issue acute; and (2) in any event, both the Circuit and District Courts in this action have significantly departed from the accepted and usual course of judicial proceedings, resulting in **substantial injustice** to the Petitioner, CMI, Inc.

I. Question 1 - Conflict Amongst the Circuits - Budinich v. Becton Dickinson & Co., supra.

A. The November 16, 1995 Opinion was not Rendered Final and Appealable until the April 15, 1996 Order of the District Court.

On August 20, 1996, the Federal Circuit Court ruled that CMI's appeal was 'untimely', holding that the November 16, 1995 District Court Opinion was 'final'. That holding failed to recognize that the District Court had repeatedly and specifically acted to insure that **none** of its prior Opinions and Orders in this litigation were 'final', and therefore 'appealable', until **all** issues had been resolved and decided by that Court. Indeed, the

November, 1994, Opinion and Order, relating to the July, 1994 patent trial (See: Appendix A), specifically stated that "**(b)ecause this case has been bifurcated, however, neither the jury verdict nor this order is designated as final and appealable**". CMI, 866 F.Supp. at 348 (emphasis added). The November 1994 Opinion specifically reserved CMI's 'business tort claims' and the 'exceptional circumstances' issue until the *end of the case*, to wit:

> "Since conclusive proof about whether attorney fees (pursuant to 35 U.S.C.S. §285) should, or should not, be granted is not likely to be established until the second phase of trial, which will deal with Defendant's alleged business torts, the Court will **reserve a ruling in this matter until the end of the second phase trial**." Id. (emphasis and explanatory clause added).

CMI's claims under 35 USCS Section §285 relating to the existence of 'exceptional circumstances', were a *substantive* part of the merits of the action, whereby CMI was seeking compensation for being forced to bring the action, in the first place, due to the Respondents' unfounded threats of patent infringement. This 'necessity' was best explained by District Court Judge Heyburn in his comments at the November 1, 1995, in-chambers conference:

> "I think, as I understand it, conceptually exceptional circumstances arise out of a patent action, either one

> for infringement or for invalidity of a patent. So the determination of exceptional circumstances arises out of conduct which is involved with the claim of noninfringement as it was here of the claim of patent invalidity. **So the extent you {CMI} have a right to special circumstances, it would arise out of the fact that you claim noninfringement and I ruled in your favor, and there would be some egregious circumstances that caused you to have to file your claim of noninfringement**. Therefore, the remedy would arise out of that....The remedy would be necessarily narrow because the **damage** is having to file the noninfringement action....Did CMI have no choice but to file the lawsuit. which they ended up winning, at least in part because of the conduct of Intoximeters, which was...egregious enough that {it} would **require this cause of action**." (Pages 16-18 of Transcript of the November 1, 1995 conference, as attached hereto as Appendix 'I'; emphasis added).

From the District Court's own words, it is obvious that the Court viewed the issue of exceptional circumstances as one tied up with the **merits** of the case, and one which amounted to an item of **damage** in CMI's favor. That recognition can be further seen in the District Court's November 16, 1995, Opinion, which reserved the issue of exceptional circumstances for later decision pursuant to a 'final' briefing schedule to be ordered by the Court. CMI, 918 F.Supp. at 1091. This was certainly not some 'collateral' issue of "costs" which the parties would resolve as an 'afterthought' to the litigation; but, instead, was a material and substantive part of the case, and **the District Court specifically continued, and did not 'cancel', the Trial date in**

that action in the event substantive issues remained to be resolved subsequent to the briefing process on the issue of exceptional circumstances. (See November 1, 1995 Transcript, p. 32; November 8, 1995 Order).[1]

On a final note, the District Court has completely clarified its intentions with regard to this issue through the entry of an Order dated October 18, 1996 (attached hereto as Appendix 'H').[2] In that Order, the District Court refused to take any action on CMI's FRCP 60 Motion, but specifically noted that "...**it was not its (the District Court's) intent to create an appealable order on November 16, 1995.**" (Emphasis and explanatory clause added). The intent of the District Court has been clearly identified, and it was error for the Federal Circuit Court to *ignore* this mandate.

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[1]Note that the District Court only ordered the parties to brief whether exceptional circumstances *existed* in this litigation - the actual damage claims were reserved for trial/hearing, as obviated by the November 8, 1995 Order of *Continuance*.

[2]On August 28, 1996, CMI moved the District Court to alter and amend its April 15, 1996 Order pursuant to FRCP 60. This Motion was filed in accordance with existing authority on the issue, and sought to end any confusion as to the District Court's intentions through the issuance of a firm, final Order. The Federal Circuit was made aware of CMI's Motion, as the same was attached as an Addendum to CMI's Motion to Reconsider the August 20, 1996 Order.

B. **Conflicts Exist Amongst the Circuit Courts of Appeal regarding the existence of any exceptions to Budinich, supra.**

The Federal Circuit Court's Orders of dismissal primarily relied on the case of Budinich v. Becton Dickinson & Co., 486 U.S. 196, 108 S.Ct. 1717, 100 L.Ed.2d 178 (1988), in which this Honorable Court held that "an unresolved issue of attorney's fees for the litigation in question does not prevent a judgment on the merits from being final." The Federal Circuit Court neglected, however, to recognize that Budinich, supra., and its progeny dealt with unresolved requests for attorney's fees as simple 'costs' in various actions, and not with questions of fees involving an *integral* and *material* part of the relief being sought by a plaintiff. Justine Realty Co. v. American National Can Co., 945 F.2d 1044 (8th Cir., 1991); Deus v. Allstate Ins. Co., 15 F.3d 506 (5th Cir., 1994); Noble Drilling, Inc. v. Popich Brothers Water Transport, Inc., 64 F.3d 191 (1995); Vargas v. Hudson County Bd. of Elections, 949 F.2d 665 (3d. Cir., 1991); Carter v. General Motors Corp., 983 F.2d 40 (5th Cir., 1993); Harbor Insurance Co. v. Trammell Crow Company, Inc., 854 F.2d 94 (5th Cir., 1988).

i. **An exception has been recognized by the Third, Fifth and Eighth Circuits.**

In Justine Realty, supra., the Eighth Circuit distinguished this Court's holding in Budinich as follows:

> "The (Budinich) Court did not hold that a claim for attorney's fees can never be 'part of the merits of the action' to which the fees pertain. Rather, it held that as a 'general matter' fees are not part of the merits. Budinich at 200....**(T)he distinction makes good sense, for in some instances fees are substantively part of a plaintiff's compensatory damage and are necessary to remedy the damage or injury sustained by the plaintiff**. For instance, in an action against an insurer for failure to defend an underlying action as required by an insurance policy, plaintiff's costs and fees in defending the underlying action would constitute part of its damages....Fees of this sort are substantively part of plaintiff's compensation, and go to the merits of the claim..." Justine Realty, supra. at 1047. [Emphasis supplied]

Furthermore, in Deus, supra., the Fifth Circuit noted that an order that adjudicates fewer than all the claims or rights of fewer than all the parties does not terminate the action as to any claims or parties. (Id. at 520, citing FRCP 54(b)). In distinguishing Budinich, supra., the Fifth Circuit ruled that **where a demand for attorney's fees is itself a part of the merits, the general rule does not apply**. Deus at 520 (also citing Buchanan v. Stanships, Inc., 485 US 265, 108 S.Ct. 1130, 99 L.Ed.2d 289 (1988), which held that a different issue may be presented if expenses of

this sort were provided as an aspect of the underlying action). Under the Fifth Circuit's rationale, if the requested relief *does* remedy the injury giving rise to the action, it must be considered a claim for substantive relief on the merits. Deus, supra. at 521.

Additional reference can be had to Vargas v. Hudson County Board of Elections, 949 F.2d 665 (3rd Cir.,1991), whereby the Third Circuit distinguished Budinich, supra., and acknowledged that attorney's fees awards *can* be a part of damages which a defendant is required to pay to a plaintiff. In Vargas, the Third Circuit ruled that Budinich was inapplicable since the attorney's fees requested by the plaintiff class was an actual element of damage. The defendant's total obligation to the class, and hence the plaintiffs' total claim for damages against the defendant, was not determined until the amount of counsel fees in that case had been set. Vargas, supra. at 669. The attorney's fees were held to be but "one element of the total sum, similar to pre-judgment interest or any other compensable element of recompense." Id.[3]

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[3]Note also Behrens v. Pelletier, ___ U.S. ___, 116 S.Ct. 834, 133 L.Ed.2d 773 (1996), in which this Court held that the requirement of 'finality', for the purposes of appellate jurisdiction, precludes consideration of "even fully consummated decisions that are but steps toward final judgments in which they will merge", as was the case with the District Court's actions in this litigation. Id.

Finally, the Fifth Circuit, in Harbor Insurance Co. v. Trammell Crow Company, Inc., 854 F.2d 94 (5th Cir., 1988), distinguished Budinich, supra., to wit:

> "{The Appellee} contends that we are without jurisdiction to decide this appeal. We reject this contention because, while the district court's judgment did dispose of the merits, it was labelled 'interlocutory' and specifically provided that 'this Judgment is an Interlocutory Judgment only'. **We find nothing in the Supreme Court's writing** {in Budinich} **to remove the district court's control of the case and transform its interlocutory order into a final judgment when the latter court chooses to render its final judgment after resolving the attorney's fee issue**." Harbor Insurance, supra. at 97 (emphasis added).

ii. **Other Circuits Have Refused to Recognize any Exceptions**

Notwithstanding the development of the exceptions outlined above, other Circuits have ruled that there are *no* exceptions to Budinich, supra., thereby upholding the so-called 'bright-line rule' that an unresolved issue of attorney's fees, of whatever nature, for a litigation in question does not prevent a judgment on the merits from being final. These cases include opinions in the First, Second, Fourth, Seventh, Ninth and Eleventh Circuits, to wit: Alman v. Taunton Sportswear Mfg. Corp., 857 F.2d 840 (1st Cir., 1988); Farkas v. Rumore, 101 F.3d 20 (2d. Cir., 1996); Morley v. Cohen, 888 F.2d 1006 (4th

Cir., 1989); Dunn v. Truck World, Inc., 929 F.2d 311 (7th Cir., 1991); U.S. v. RG&B Contractors, Inc., 21 F.3d 952 (9th Cir., 1994); and Golub v. J.W. Gant & Assoc., 863 F.2d 1516 (1989).

C. Effect of the Resolution of the Conflict on this Litigation

Obviously, a direct conflict exists amongst the Circuit Courts of Appeal regarding whether any exceptions exist to the rule in Budinich, supra., and the recognition of such an exception is essential to the ability of CMI to present its substantive appeal of the November 16, 1995, District Court Opinion and Order to the Federal Circuit Court of Appeals for consideration. This Court is authorized to grant a Writ of Certiorari when an important and real conflict of opinion and authority exists between the Circuit Courts of Appeal on an issue. S.Ct. Rule 10(a); U.S. v. Constantine, 296 U.S. 287, 80 L.Ed. 233, 56 S.Ct. 223 (1935); Rice v. Sioux City Memorial Park Cemetery, Inc., 349 U.S. 70, 75 S.Ct. 614, 99 L.Ed. 897 (1955); International Union v. Scofield, 382 U.S. 205, 86 S.Ct. 373, 15 L.Ed.2d 272 (1965); The Monrosa v. Carbon Black Export, Inc., 359 U.S. 180, 79 S.Ct. 710, 3 L.Ed.2d 723, reh. den. 359 U.S., 999, 79 S.Ct. 1115, 3 L.Ed.2d 986 (1959); Stelos

Co. v. Hosiery Motor-Mend Corp., 295 U.S. 237, 55 S.Ct. 746, 79 L.Ed. 1414 (1935).

A resolution of the conflict can occur through this Court's recognition of the exceptions to the Budinich, supra., rule, as set forth and detailed by the Eighth Circuit in Justine Realty, supra. Once the exception is mandated, the Federal Circuit Court of Appeals in this litigation would be required to recognize that CMI could *not* have appealed the November 16, 1995 ruling, when a potential trial remained in the District Court on the issue of exceptional circumstances, as specifically reserved by that Court. The Federal Circuit Court would further be forced to recognize that the District Court below chose to label its actions as interlocutory in character, prior to its April 15, 1996 ruling that the *entire* case was final and appealable. Indeed, the merits of the CMI case had not been entirely addressed after the November 16, 1995 ruling, but yet the Federal Circuit Court ruled that the Opinion was 'final'. In any event, the Budinich decision should not have served to remove Judge Heyburn's 'control of the case', and thus could not transform Judge Heyburn's interlocutory acts into final judgments. Harbor

Insurance, supra, at 97.[4]

II. Question 2 - Significant Departure from Accepted and Usual Course of Judicial Proceedings.

The Federal Circuit Court of Appeals dismissed CMI's appeal of this action based, in further part, on the fact that the District Court issued an opinion and Order on the 'exceptional circumstances' issue on April 1, 1996. However, the Federal Circuit chose to ignore the District Court's actions in the issuance of its **final** Order on April 15, 1996, resulting in a significant departure from the accepted and usual course of judicial proceedings - requiring review by this Honorable Court - as explained below.

A. The District Court agreed that the case was not final and appealable . until the entry of its April 15, 1996 Order.

On April 1, 1996, the District Court issued its Opinion and Order regarding exceptional circumstances under 35 U.S.C.S.

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[4]Note also Napier v. Thirty or More Unidentified Federal Agents, 855 F.2d 1080 (3rd Cir., 1988), in which Budinich was distinguished, since the District Court had 'reserved' the issue of sanctions in a case for later determination; since the District Court used the future tense in the Order in question, (as was the case with the District Court below (see November 16, 1995 Opinion, 918 F. Supp. at 1091)), the Third Circuit held that the District Court did not intend the order to be its 'final' order.

§285, but that Order failed to acknowledge that the Court's prior Opinions and Orders were final and appealable. CMI thereby filed a Motion, on April 5, 1996, to render those decisions to be final and appealable (Appendix 'J' hereto), and **the Defendants (Respondents) did not respond to, object to, or otherwise resist that Motion**, whatsoever. The District Court then *granted* CMI's Motion by reissuing its Order, on **April 15, 1996**, which read, in part, as follows:

> "...IT IS HEREBY FURTHER ORDERED that the Memorandum Opinion and Order and Judgment entered by this Court on November 1, 1994, and the Memorandum Opinion and Order entered by this Court on November 16, 1995, are expressly incorporated herein by reference, and are hereby rendered to be final and appealable....This is a final and appealable order." (Attached as Appendix E hereto).

The Federal Circuit Court failed to recognize that CMI did not ask the District Court to re-date its Order of April 1; indeed, *the Order tendered with CMI's Motion contained an 'April 1, 1996' date* (see Appendix 'J' hereto). Furthermore, CMI's Motion specifically stated the following:

> "As a result, and for purposes of clarification, CMI moves the Court to enter the attached Order **(retroactively applied to April 1, 1996)**, expressly incorporating the Opinions and Orders entered November 1, 1994, and November 16, 1995, therein, and thereby rendering those Opinions and Orders to be "final and appealable", **as of April 1, 1996**." (See

Appendix J; emphasis added).

Notwithstanding that tender, the District Court specifically *crossed-out* the April 1 date and *wrote in* the April 15, 1996 date. Obviously, the District Court intended its Order, rendering all decisions to be final and appealable, to be effective only as of April 15, 1996, and CMI was not attempting to delay, avoid, or ignore the appellate deadlines by filing within thirty days of the April 15, 1996, date.[5]

In its August 20, 1996 Order, this Court failed to acknowledge that District Court did not respond to CMI's Motion by either denying the Motion; or by holding that the November 16, 1995 Order was final and appealable by its own terms. **INSTEAD, the District Court agreed with CMI as to the need and necessity of an order confirming that the entire case was final and appealable, and the District Court did so on April 15, 1996.**

Therefore, in view of the actions of the District Court, itself,

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[5]On this point, the Federal Circuit's December 16, 1996 Order stated that "CMI took no action to postpone the deadline for filing its appeal, and it did not receive any assurance from the district court that the deadline had, in fact, been extended." Obviously, CMI immediately took action to correct the April 1 Order by filing its Motion of April 5, and CMI certainly received the requisite 'assurance' from the District Court, due to its independent action of crossing out the April 1, 1996 date on the tendered Order and replacing it with 'April 15, 1996'.

in establishing the date of the finality of its actions as being April 15, 1996, CMI's May 7, 1996, Appeal to the Federal Circuit Court was timely, pursuant to FRAP 4. Certainly, CMI should have the right to rely upon the actions of the District Court in determining when its actions are "final".

B. <u>The Federal Circuit Court effectively ruled that the case only became final and appealable on April 15, 1996.</u>

Additionally, it is important for this Honorable Court to note that *the Federal Circuit Court*, itself, has also effectively 'ruled' on this issue through its Order entered on June 25, 1996 (attached as Appendix K), granting CMI's Motion to Revise the Official Caption in this Appeal to include Intoximeters and NPAS as parties to the Appeal (Intoximeters and NPAS were initially omitted from the Official Caption). CMI's Motion noted that some confusion must have arisen in the Federal Circuit Clerk's Office due to the fact that the District Court Docket Sheet listed Intoximeters and NPAS as being 'dismissed' on November 16, 1995. In its moving papers CMI pointed out to this Court that the November 16, 1995, Order of the District Court entered in favor of those parties pursuant to FRCP 56, was not, by its own terms, rendered to be "final and

appealable",

It is inescapable that the appeal period was triggered by the District Court Order entered on *April 15, 1996*, which specifically rendered the November 1, 1994, December 21, 1994, and November 16, 1996, Orders and Judgments to be "final and appealable", for the purposes of FRCP 54 and 58, on that date. CMI could not have appealed the dismissals/summary judgments entered in favor of National Patent or Intoximeters until the April 15, 1996, Order of the District Court rendered those decisions to be ripe for appeal.

In view of these facts, the Federal Circuit Court agreed with that rationale and ordered the addition of Intoximeters and NPAS as parties to the Official Caption. **This was the only reason that the Federal Circuit Court *could have utilized* to allow such a caption revision; therefore, the subsequent dismissal of this appeal has resulted in the Federal Circuit Court contradicting the tenor of its own prior ruling.**

C. Excusable Neglect Standards

Although CMI was, at all times, acting in accordance with the directives and orders of the District Court with reference to its 'interlocutory' opinions, a Court is authorized, pursuant to

FRAP 4, to grant extensions of time for filing Notices of Appeal and/or remand cases to District Courts to so authorize an extension if excusable neglect exists due to inadvertence, mistake, or unique/extraordinary circumstances. United States v. Hooper, 9 F.3d 257 (2d. Cir, 1993); Gochis v. Allstate Ins. Co., 16 F.3d 12 (1st Cir., 1994).

Certainly, CMI acted in this case in accordance with the mandates and directives of the District Court in following the briefing schedules set out in the November 8, 1995, Order, with the intention of finalizing the case through a decision as to whether the case was exceptional pursuant to 35 USCS §285. Most certainly, if the District Court had ruled in CMI's favor, in April of 1996, a trial would have been redocketed to determine the amount of damages due and owing to CMI as a result of such a ruling. At a minimum, CMI acted mistakenly in assuming the November 16, 1995, Opinion was not 'final', and/or that Judge Heyburn intended that the appeal time would commence running on April 1, 1996 - in reality, due to this unique litigation, CMI acted properly and awaited the *final* ruling of the District Court with regard to *all* issues in the case.

Notwithstanding the foregoing, the Federal Circuit Court denied CMI's argument that the circumstances mandated a

finding of 'excusable neglect', and a consequent extension of time in which to file CMI's Notice of Appeal. Even if the Federal Circuit was determined to hold CMI to some quasi 'letter of the law' standard, the circumstances of this litigation 'scream out' for a remedy - and that remedy could have easily been couched in terms of excusable neglect. Once again, the Federal Circuit has closed a door in a convoluted litigation maze - created by its own disinterested attempt to determine the 'intentions' of the District Court - even when those intentions were communicated to the Federal Circuit through the supplementation of CMI's Motion to Reconsider with the October 18, 1996, Order of Judge Heyburn. This serious departure from the "accepted and usual course of judicial proceedings" requires intervention from this Court, which now truly stands as CMI's last chance for justice.

D. Significant Departure from Accepted and Usual Course of Judicial Proceedings

Both the Federal Circuit Court of Appeals and, to some extent, the District Court below, have gone to great lengths to determine that CMI has waived its right to any substantive appeal, notwithstanding the overwhelming reality that this case did not/could not have become 'final and appealable' until

April 15, 1996. However, for all of the reasons set out in detail above, CMI has either (1) timely filed its appeal to the Federal Circuit Court of Appeals or (2) is entitled to a finding of excusable neglect, to the extent the date of 'finality' in this litigation is determined to be anything other than April 15, 1996.

This Court is thereby requested to issue a Writ of Mandamus to so enable to CMI to make its case to this Court, and to thereby secure the justice it deserves. Pursuant to Supreme Court Rule 10(a), this Court is authorized to grant such a Petition when a United States Court of Appeals has "so far departed from the accepted and usual course of judicial proceedings, or sanctioned such a departure by a lower court, as to call for an exercise of this Court's supervisory power". New York City Transit Authority v. Beazer, 440 U.S. 568, 99 S.Ct. 1355, 59 L.Ed.2d 587 (1979). Such a departure can be deemed to have occurred where, as in CMI's case, a Circuit Court of Appeals has acted in a way to deprive the petitioner of his 'day in court'. LeTulle v. Scofield, 308 U.S. 415, 60 S.Ct. 313, 84 L.Ed. 355 (1940).

Certainly, the actions of the Federal Circuit Court in dismissing CMI's appeal, through an inexplicable refusal to

acknowledge the true intentions of the District Court, have deprived CMI of its 'day in Court'. CMI has at all times acted in accordance with the mandates of FRAP 4 and FRCP 59, but that compliance went ignored due to the Federal Circuit and District Courts' departures from any semblance of the accepted and usual course of judicial proceedings.

III. Summary and Conclusion

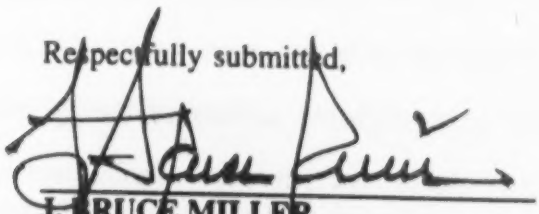
CMI's substantive appeal of the issues ruled upon in the District Court's November 16, 1995 Opinion and Order has been thwarted due a procedural technicality - fueled by a conflict amongst the Circuit Courts of Appeals as to whether an issue of the award of attorney's fees can ever be a part of the 'merits' of an action. A resolution of that conflict, through a recognition of the exception to this Court's ruling in Budinich, supra., will require the Federal Circuit to determine that the November 16, 1995 Opinion and Order was **not** rendered final and appealable *until* the District Court ruled upon the exceptional circumstances issue in April of 1996, thereby preserving CMI's appeal in this action.

Furthermore, CMI has relied, totally, on the actions of the District Court in the fashioning of its appeal to the Federal

Circuit Court. CMI believes that it is fair, proper and reasonable to rely on the District Court as to the determination of **when** a matter is "final and appealable" - indeed, the District Court has now admitted its intentions in its October 18, 1996 Order. The Federal Circuit Court, in its dismissal of this case, has overlooked the unquestionable actions of the District Court regarding its determination of "finality". In the interests of justice and fair-play, this Court is asked to review the rulings of the Federal Circuit Court, in light of the District Court's actions and CMI's reliance upon them - as the same have resulted in a significant departure from the accepted and usual course of judicial proceedings which could be expected in bifurcated commercial litigation cases.

WHEREFORE, Petitioner, CMI, Inc., respectfully requests this Court to grant its Petition for a Writ of Certiorari to the United States Court of Appeals for the Federal Circuit.

Respectfully submitted,



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APPENDIX A

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
AT LOUISVILLE

CIVIL ACTION NO. C93-0265-L(H)

CMI, INC. PLAINTIFF

V.

INTOXIMETERS, INC., et al DEFENDANTS

MEMORANDUM OPINION

This is a declaratory judgment action in which CMI seeks a declaration of this Court that it does not infringe Intoximeters's patent (United States Patent No. 4,495,418) and that the patent is invalid.[1] Plaintiff determined to do so due to the unusual circumstances of controversy between these two leading makers of breathilyzers. As is often true in these cases, the Court is confronted with complicated facts, sometimes uncertain science and the usual thicket of patent legal issues.

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[1]The issues related to patent validity were submitted to the jury which found that CMI failed to prove by clear and convincing evidence that the patent is invalid. After an eight-day trial, the jury found specifically that the patent was valid because Plaintiff did not show by clear and convincing evidence that the patent: (1) was indefinite, (2) failed to disclose its enablement, (3) failed to disclose its best mode or (4) was obvious.

On CMI's motion for partial summary judgment, the Court holds that CMI's Intoxilyzer 5000 does not infringe; that an actual controversy exists; and that the patent is enforceable. At the conclusion of the trial, the Court concludes that Intoximeters did not engage in inequitable conduct before the Patent and Trademark Office. The Court will reserve a ruling about whether Intoximeters misused its patent and whether this is an "exceptional" case, which would warrant an award of attorney fees, until the conclusion of the second phase of this trial, which will primarily concern CMI's claims of unfair competition.

I.

The 418 Patent

Before considering any patent and its validity or infringement, it is essential to describe it properly. In 1983, the Patent and Trademark Office issued to Intoximeters the 418 patent for a method of standardizing or calibrating breath alcohol by passing a dry gas carrier sample containing a known amount of alcohol over an IR (infrared) cell that is non-adsorbent as to alcohol. The inventor claimed difficulty

calibrating and standardizing instruments using a dry gas carrier combined with "conventional" IR cells that were "usually anodized aluminum, with a coating of aluminum oxide on them, or occasionally steel on which rust forms." The inventor, Donald Eutson, stated that, "these metal oxides characteristically adsorb water and alcohol [and when using] a dry gas carrier ... the alcohol itself is adsorbed, leading to erratic results."[2] Mr. Hutson solved this problem by the "discovery" that nickel plated aluminum is "non-adsorbent" as to alcohol and would, therefore, not produce erratic results. In short, the novelty of the patented method is the use of dry gas with a non adsorbent IR cell, e.g, a nickel-plated or stainless steel IR cell.

For purpose of comparison, CMI's Intoxilyzer 5000 uses a dry gas carrier with an extruded aluminum IR cell.[3]

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[2]Erratic results are caused by the alcohol molecules being adsorbed by, or adhering to, the walls of the metal cell. If the metal is too adsorbent, the cell cannot be cleared of the alcohol accumulated in a prior test. Thus, subsequent test results may be affected.

[3]The term ~Intoxilyzer 5000" encompasses a range of CMI instruments. Of the 24 states using the Intoxilyzer 5000, only Oregon and Wisconsin use machines with aluminum cells and a dry gas carrier. In the other states, CMI used a wet bath

Extruded aluminum has a naturally-formed coating of aluminum oxides. It is distinguishable from anodized aluminum, expressly mentioned in the 418 patent, in that anodization, an artificial means of applying an oxide coating, may create, depending on the degree of application, a thicker layer of oxides -- the more oxides, the more adsorbent is the cell. The patent thus implies, and both parties agree, that extruded aluminum with its coating of oxides adsorbs alcohol; the point at which the parties diverge is the degree of that adsorption and whether that produces erratic results.

CMI takes the position that although extruded aluminum adsorbs alcohol, the absorbency is so slight that it is of little or no consequence.[4] As CMI's lot would have it, this

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solution for calibration. The bidding war in Oregon between CMI and Intoximeters, however, is in part the basis for this lawsuit.

[4]CMI's internal computer program recalculates the ~zero~ level after each sample reading and after each air blank has purged the system. If the new reading is within the accepted tolerance, then the machine continues to operate. The "actual" new reading may vary after each air blank due to variations in the electronics. If the new reading is outside the accepted tolerance, then an "ambient fail" is recorded. By this method, CMI asserts that extruded aluminum does not adsorb alcohol to a degree sufficient to cause erratic or incorrect results.

is how Intoximeters would define the term "non-adsorbent." Intoximeters asserts that "not adsorbent" does not mean the complete absence of absorbency, since all metals literally adsorb, but is best defined more generally as lacking the characteristic of adsorbing to a significant degree (i.e., by producing erratic results) and lacking the characteristic of adsorbing more alcohol than nickel-plated aluminum or stainless steel.

This interpretation, however, may be unimportant since the patent implies, and since Intoximeters has repeatedly asserted in this litigation, that extruded aluminum is significantly more adsorbent than nickel-plated aluminum. Mr. Hutson suggested that the relative adsorbent qualities of these metals perhaps might be due to the different degrees to which each metal corrodes.[5] This quality of absorbency, Mr. Hutson said, caused erratic results. In sum, Intoximeters' position is that if the Intoxilyzer 5000 works, then it must infringe; but if it does not work, it does not infringe. For the reasons set forth herein, the Court finds this position to be

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[5]Corrosion is the formation of metal oxides on the surface area of metal.

absolutely untenable.

II.

Infringement

Before trial, CMI moved for partial summary judgment on the issue of non-infringement.[6] Summary judgment is appropriate in a patent case where, construing the evidence and all reasonable inferences in a light most favorable to the non-moving party, no genuine issue of material fact exists and the movant is entitled to judgment as a matter of law. *See Becton Dickinson and Co. v. C.R Bard, Inc.*, 922 F.2d 792, 795 (Fed. Cir. 1990)(citations omitted).

Under any set of facts imagined, the Intoxilyzer 5000 does not infringe the 418 patent. If it is true that extruded aluminum is significantly more adsorbent than nickel-plated aluminum, then the Intoxilyzer 5000 concededly does not infringe the 418 patent under a literal or substantially equivalent analysis of infringement. *See id.* at 796-798 (discussing literal infringement and what is required for a

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[6]The Court granted the summary judgment in advance of trial, but now puts its reasons in writing having heard all the evidence.

finding of infringement under the "doctrine of equivalents").[7]

On the other hand, if the alcohol absorbency of extruded aluminum is substantially the same as nickel-plated aluminum, then prosecution history estoppel dictates that Intoximeters cannot now exclude CMI from using extruded aluminum as part of the method for dry gas calibration or standardization.[8] Prosecution history estoppel prevents a

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[7]This trial did not contest the issue of whether the Intoxilyzer 5000 produces accurate results. That is for the second phase. Prior to this trial, however, the Court asked the parties to present evidence about the relative adsorptive qualities of nickel-plated aluminum and extruded aluminum because it might be relevant to the patent validity issue and also to the issue of infringement. Prior to trial, the Court concluded that whatever proof about adsorption might be presented during the first phase of this trial, it would not alter the Court's opinion about infringement. Nevertheless, the parties each presented evidence. Intoximeters could produce no credible evidence that its nickel-plated aluminum cell was less adsorptive to alcohol than an extruded aluminum cell. On the other hand, CMI produced an impressive array of tests, virtually unrebutted by any reliable or properly conducted scientific tests by Intoximeters, which demonstrate that the adsorptive qualities of extruded aluminum as used in the Intoxilyzer 5000 do not produce inconsistent results.

[8] CMI argues that the 5000 does not infringe because it does not use the dry gas for purposes of calibration and standardizing, but rather only for "checking." CMI asserts that calibrating is performed by another process. This argument may have validity, but the Court will not reach its conclusion on that basis.

patentee from obtaining, through the doctrine of equivalents, "coverage of a subject matter that was relinquished during prosecution to procure issuance of the patent." *Hoganas AB v. Dresser Industries, Inc.*, 9 F.3d 948, 951-52 (Fed. Cir. *1' 93)(citing Loctite Corp. v. Ultraseal Ltd.*, 781 F.2d 861, 870 (Fed. Cir. 1985)). "The legal standard for determining what subject matter was relinquished is an objective one, measured from the vantage point of what a competitor was reasonably entitled to conclude, from the prosecution history, that the applicant gave up to procure issuance of the patent. *Zenith Labs v. Bristol Myers Squibb, 19* F.3d 1418, 1424 (Fed. Cir. 1994); *id.* at 952.

Although a patentee can be his own lexicographer, the words of a claim "will be given their ordinary meaning, unless it appears that he inventor used them differently." *Hoganas, 9* F.3d at 951 (citation omitted). Here, the ordinary meaning of the term "non-adsorbent" is unworkable, in light of the aim of the patent and the fact that all metals are, at least to some degree, adsorbent. The Court accepts Defendant's definition of the term.

The premise of the patent includes the inventor's

assertion that "anodized aluminum, with a coating of aluminum oxide ... adsorb[s] alcohol." In the Description of the Preferred Embodiment, the patent states "[i]n the preferred embodiment of this invention, the interior surfaces of the IR cell that are to be exposed to breath samples . . .are plated with nickel . . . [t]he exposed walls can alternatively be made of stainless steel, or can be plated with or formed of other metals, such, for example, as gold or chromium, that are non-adsorptive of alcohol." Although the patent does not expressly mention extruded aluminum, the patent impliedly disclaims its use since extruded aluminum has a "coating of aluminum oxide,"although to a lesser degree than does the disfavored anodized aluminum, and is significantly different than the metals listed in the Description. Unlike aluminum,[9] which readily forms a layer of aluminum oxide on its surface area, the metals mentioned in the preferred embodiment section do not readily corrode, and presumably are, for that reason, less adsorbent as to alcohol in a dry gas carrier. Keeping in mind that it is improper for a court to add extraneous limitations to a

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[9]Anodized aluminum, the type of metal used in the cells studied by the inventor, has an additional layer of oxides added to it.

claim that are wholly apart from any need to interpret what a patentee meant by particular words or phrases, id. at 950 (citation omitted), the Court believes that a competitor reasonably would have concluded that the inventor would not have used as examples of non-adsorbent metals gold, chromium, and stainless steel, if the term "non adsorbent" were to encompass extruded aluminum as well.

Moreover, during a bidding contest for the Oregon purchase of breath analyzers, Intoximeters represented by letter to CMI that the use of bare or untreated aluminum does not infringe the 418 patent. The inventor believed that extruded aluminum was too adsorbent to produce accurate results. If the inventor was incorrect about that, and it appears that he was, then he certainly cannot now exclude others from using that method about which he was mistaken. The Court concludes that Intoximeters should not be able to obtain, through litigation, coverage of a subject matter (i.e. extruded aluminum IR cells) that a competitor reasonably could conclude that it gave up to procure issuance of its patent. *See Zenith, 19* F.3d at 1424.

III.

Actual Controversy

Having concluded that, as a matter of law, the Intoxilyzer 5000 does not infringe the 418 patent-, the Court must determine whether there is an actual continued controversy on the issue of the validity or unenforceability of the patent *Cardinal Chemical Co. v. Morton Int'l Inc.*, 113 S.Ct. 1967 (1993). Intoximeters argued that there was no need to submit the validity issue to the jury since once it is determined that there is no infringement, CMI's legal rights are no longer implicated under the patent. Absent an actual continued controversy, the Court lacks subject matter jurisdiction.

In this case, the ruling of non-infringement did not render moot the patent validity issue, given Intoximeters's claims and use of its patent in the marketplace. Intoximeters continues to take the position that the patented method is superior to the Intoxilyzer 5000 and, more significantly, that Cmi use of extruded aluminum with dry gas produces erratic results. As long as Intoximeters uses the 418 patent as presumptive proof of these claims, the validity or

enforceability of the patent is an issue in actual controversy.

IV.

Conduct Before the Patent and Trademark Office

An otherwise valid patent is unenforceable if obtained by inequitable conduct. Inequitable conduct requires proof by clear and convincing evidence that (1) an omitted reference or false information was material in deciding whether to allow the application to issue as a patent and (2) an intent to deceive. *J.P. Stevens & Co., Inc. v. tex Tex Ltd., Inc.*, 747 F.2d 1553 (Fed. Cir. 1984). Information is material if there is a substantial likelihood that a reasonable patent examiner would have considered the omitted reference or the false information important in deciding whether to allow the application to issue as a patent. *Id.* Intent to deceive may be established by a showing of gross negligence, namely reckless disregard of the duty of candor. Simple negligence or an honest mistake, however, is insufficient. *Id.*

Among other things, this litigation has brought to light that the inventor did not know with a reasonable degree of scientific certainty, whether anodized aluminum when used

with a dry gas carrier produces erratic results since it is clear that in many machines the perceived cause of erratic results—"anodized aluminum with a coating of aluminum oxide"—was in fact acid-etched aluminum, a highly adsorptive metal. The question is whether this mistake of fact was material to the patent examiner's decision to issue the patent The Court believes that a reasonable patent examiner would have questioned whether all prior art or conventional IR cells were adsorbent as to alcohol had there been disclosure of the acid-etching.

It is important to compare the problem as described in the 418 patent with those actual experiences and observations of Mr. Hutson and Mr. Forrester prior to the patent application. The inventor testified that the dry gas method of calibration (as identified in the 551 patent) did not work well with anodized aluminum and he identified the non-adsorbent qualities of nickel-plated aluminum as a novelty, which achieved accurate results from dry gas calibration of breath analyzers.

In this case, the tests and studies which led to the discovery can best be described as anecdotal. The inventor and

his partners made no attempt to account for variables, establish a scientific protocol or to record the results. Even this could be permissible notwithstanding the fact that the inventor misstated some of the basic premises and took absolutely no reasonable care to determine the true nature of his problem. For example, the patent stated that the use of a wet bath calibration with an anodized aluminum cell led to reproducible, i.e. reliable, results. However, Mr. Hutson asserted that one of the circumstances leading to his discovery was the inaccurate results from the machines used in Tennessee, machines that functioned entirely with the wet bath carrier.

The high standard of proof which requires a showing of fraud or gross negligence by clear and convincing evidence, makes this a difficult decision. The law does not impose an affirmative duty to discover facts that might be relevant to a patent examiner. Rather, inventors are required to disclose all known relevant facts. *See J.P. Stevens, 747* F.2d 1553. Both Mr. Hutson and Mr. Forrester seemed to be honest persons trying to tell the truth as best they remember it. Though the truth which they remember is hardly compelling, the Court cannot conclude that it amounts to fraud. Though a

retrospective look reveals other readily available solutions to the problem of adsorption by IR cells, one cannot say that it was *gross* negligence to overlook them. For this reason, the Court cannot conclude that Intoximeters engaged in inequitable conduct before the Patent and Trademark Office.

V.

Misuse of the Patent

Although patent misuse is an affirmative defense that shall be pleaded, 35 U.S.C. §282(4), the question of patent misuse is also properly before the Court. Once proof of patent misuse is accepted by the Court, failure to have it pleaded does not preclude consideration of a defense of misuse. *Holley v. Outboard Manne Corp.*, 241 F. Supp. 657 (D.C. Ill. 1964),*afftd* 345 F.2d 351.

Courts will not enforce a patent if it has been used to improperly extend its scope with an anti-competitive effect. *Windsurfing Intq v. AMF, Inc.*, 782 F.2d 995 (Fed. Cir. 1986). A misused patent is unenforceable until the improper practices have stopped and the effects of the misuse have dissipated. *Kearney & Trecker Corp. v. Cincinnati Milacron, Inc.*, 562 F.2d 365, 371 (6th Cir. 1977); *United States*

Gypsum Co. v. National Gypsum Co., 352 U.S. 457, 465 (1957)(noting that courts "will not aid a patent owner who has misused his patents . . . until the effects of such misuse have been dissipated, or 'purged'").

Defendant made claims of patent infringement and patent scope which were outrageous and insupportable. Defendant made these claims without investigation or reasonable belief as to their truth. Among other things, Defendant made claims about CMI's use of nickel in the Intoxilyzer 5000, which Defendant did not fairly investigate, and which it could never substantiate. It made claims to the scope of its patent which were unfair and insupportable -- that its patent included methods which the inventor had specifically or impliedly disclaimed. Finally, it made claims, which are not supported by any evidence at this time,[10] about the adsorbent

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[10]The evidence at trial convincingly demonstrated that the alcohol adsorbent qualities of extruded aluminum in the Intoxilyzer 5000 are no different than those of the nickel-plated aluminum cells identified in the 418 patent. Defendant may correctly say that Plaintiff never demonstrated that extruded aluminum will not corrode. Defendant never adequately debunked this theory, however. Defendant assumed, apparently without scientifically adequate verification or testing, that any aluminum based IR cell could not produce accurate results for calibration of breath analysis devices using a dry-gas carrier. As yet the Court has seen no

qualities of extruded aluminum and, by direct implication, the veracity of the Intoxilyzer 5000 results. The impact of this conduct was highly anti-competitive.

The Court concludes, therefore, that there *appears to* be substantial evidence that Intoximeters misused its patent Since the evidence required to *prove* misuse is likely to be crucial to the determination of the issues reserved for the second phase of this trial (e.g. common law business torts), the Court believes that the question of patent misuse properly should be litigated during the second phase of this bifurcated trial and will rule on the matter then.

VI.

Attorney Fees

35 U.S.C.S. §285 authorizes the Court to award reasonable attorney fees to the prevailing party upon a finding that an action is an "exceptional case." *J.P. Stevens Co., Inc. v. Lex Tex Ltd., Inc.*, 822 F.2d 1047 (Fed. Cir. 1987). To declare a case "exceptional," the Court must find unfairness, bad faith, or inequitable conduct of the patentee. *Badalamenti*

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credible evidence to support this assumption. But this will be decided with finality in the second phase of the trial.

v. Dunham's, Inc., 896 F.2d 1359, 1364 (Fed. Cir. 1990)(citation omitted).

There is evidence that this might be an "exceptional case." The party requesting an award of attorney fees has a high burden of proof, however, and whether or not the burden has been met directly relates to the level of egregiousness of Defendant's conduct. Since conclusive proof about whether attorney fees should, or should not, be granted is not likely to be established until the second phase of trial, which will deal with Defendant's alleged business torts, the Court will reserve a ruling in this maker until the end of the second phase of trial.

JOHN G. HEYBURN, II
JUDGE, U.S. DISTRICT COURT

cc: J. Bruce Miller/Anthony L. Schnell
Charles J. Cronan, IV
Wilbur L. Tomlinson
Patrick W. Michael/Kenneth L. Anderson

ENTERED: Nov. 1, 1994

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
AT LOUISVILLE

CIVIL ACTION NO. C93-0265-L(H)

CMI, INC. PLAINTIFF

V.

INTOXIMETERS, INC., et al. DEFENDANTS

ORDER AND JUDGMENT

The Court having heard the evidence, having received and considered the jury verdict and having issued a Memorandum Opinion concerning certain issues, which are appropriate for the Court to decide, and being otherwise sufficiently advised,

IT IS HEREBY ORDERED AND ADJUDGED that CMI's Intoxilyzer 5000, using dry gas with an extruded aluminum IR cell, does not infringe United States Patent No. 4,495,418;

IT IS FURTHER ORDERED that CMI is not entitled to judgment that United States Patent No. 4,495,418 is invalid based upon the jury's verdict and the judgment thereon, all of which is attached to this Order and which is also filed separately;

IT IS FURTHER ORDERED that CMI is not entitled to judgment that United States Patent No. 4,495,418 is unenforceable on the ground of inequitable conduct before the Patent and Trademark Office;

IT IS FURTHER ORDERED that the Court's previous ruling granting a stay of discovery is LIFTED and the parties are permitted to pursue discovery related to the second phase of this litigation;

The Court expects the parties to file all necessary and appropriate post-trial motions, specifically those related to the jury verdict. Because the case has been bifurcated, however, neither the jury verdict nor this order is designated as final and appealable.

This 28th day of October, 1994.

=S=

JOHN G. HEYBURN II
JUDGE, U.S. DISTRICT COURT

cc: J. Bruce Miller/Anthony L. Schnell
Charles J. Cronan, IV
Wilbur L. Tomlinson
Patrick W. Michael/Kenneth L. Anderson

APPENDIX B

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
AT LOUISVILLE

CIVIL ACTION NO. C93-0265-L(H)

CMI, INC. **PLAINTIFF**

V.

INTOXIMETERS, INC., et al. **DEFENDANTS**

MEMORANDUM OPINION

The Court bifurcated this case and in the summer of 1994 tried the patent validity and infringement claims. *See CMI v. Intoximeters,* 866 F.Supp.342 (W.D.Ky. 1994). CMI's remaining common law claims of unfair competition include separate counts for (1) tortious interference with contractual relations; (2) tortious interference with prospective business advantage; (3) tortious defamation of business reputation; (4) intentional misrepresentation or fraud; (5) injurious falsehood; and (6) RICO. As to each cause of action, CMI makes claims against Intoximeters, Inc., Macq. Forrester ("Forrester"), Glenn Forrester, Rankin E. Forrester, National Patent Analytical Systems, Inc. and John D. Fusco. From the first trial, the Court reserved several issues: (1) whether Intoximeters misused its patent and (2) whether this case was an "exceptional" one which warranted the award of attorneys' fees. All of the parties to these remaining claims have filed dispositive motions.

Consequently, the Court must consider under these facts the full array of business tort claims now sanctioned in Kentucky and must predict whether Kentucky court would adopt others proposed by CMI. The Court released this Memorandum Opinion in draft prior to issuing this final version. The results of that conference are on the record and, in the Court's view, reflect favorably upon the correctness of the Court's conclusions.

For the reasons set forth in this Memorandum Opinion, the Court will dismiss each of CMI's common law and RICO claims.

I.

From a thorough review of the record, the Court now summarizes comprehensively the material facts from which a reasonable jury might conclude Defendants' liability under the Second Amended Complaint.

In August 1991, Robert Walsh was selected to serve on an evaluation committee to oversee the selection and purchase of breath alcohol analyzer instruments for Missouri. On August 26, 1991, he published a newsletter making positive comments concerning CMI's Intoxilyzer 5000. At this point Intoxilyzer 5000 was not a dry gas calibration instrument and was entirely

different from the instrument that CMI ultimately provided the State of Oregon which is now the subject of this lawsuit. After publication of this newsletter Walsh received a phone call from Cliff Broeder of National Patent to complain about the newsletter's comments. Broeder thought the comments showed Walsh was biased. Thereafter, certain other Missouri officials after receiving phone calls from Broeder, removed Walsh from the evaluation committee due to his perceived bias.

In the spring of 1992, Missouri solicited its first bid for breath alcohol testing equipment. CMI was the only bidder. Its bid was rejected as non-conforming. On May 13, 1992, Fusco (NP) wrote Missouri officials to criticize the "absurd requirements" for bidding that eliminated all the bidders but one. He made no comment about CMI or its products.

On July 20, 1992, Oregon issued its invitation to bid for breath alcohol testing instruments, requiring dry gas calibration and cool infra-red detector. The invitation also required a patent infringement waiver.

On July 29, 1992, Forrester (Intoximeters) sent a letter to Braswell (CMI) with a copy to Oregon officials. The letter states Forrester's understanding that the Oregon specifications call for "a breath alcohol analyzer using an IR cell that is adapted to be calibrated or standardized with a dry gas alcohol

sample." The letter calls everyone's attention to the Intoximeters' patent "418" and says that if CMI uses the dry gas alcohol standard it will undoubtedly infringe upon the "418" patent. Apparently, CMI did not first become aware of the "418" patent until July 29, 1992. On July 30, 1992, CMI responded that it did not intend to infringe upon the "418" patent.

On September 25, 1992, Oregon awarded the contract to CMI. At the state's request, CMI agreed to indemnify Oregon for any patent infringement claim.

In the fall of 1992, Forrester and Fusco attended the "T-92" conference in Cologne, Germany. Although no direct evidence of what was said at the conference exists, Forrester is alleged to have made numerous comments to Robert Dutkosky (CMI) warning him that Intoximeters would get "just compensation." Fusco is alleged to have made similar comments.

On October 5, 1992, Forrester corresponded to Oregon officials. He stated that

> Intoximeters holds the "418" patent which "governs the use of the 'dry gas' standard with an infrared breath tester. CMI, the manufacture of the Intoxilyzer, is not licensed to use this patent and therefore I request that you do not implement the use of 'dry gas' in your program . . . as you will appreciate, our quarrel is not with Oregon, but with CMI, which bid to supply equipments specifically designed to carry out an infringing process without our authority; nor

are we trying to preclude Oregon's use of the process.

The letter seems to take the position that the Oregon bid specifications required the use of the Intoximeters' patented process. Paragraph 3 of the letter makes it clear that Intoximeters has not yet determined for itself whether Oregon is using the patented process and that it may take legal action to make that determination.

On October 6, 1992, Fusco wrote Byron Thompson (Oregon) to notify formally the State of the State's obligations under the bid documents. On October 6, 1992, Fusco wrote Byron Thompson formally to protest the bid award. This letter is more in the nature of a formal protest of CMI's failure to comply with the "infringement waiver" provision of the bid documents. On October 8, 1992, Thompson (Oregon) wrote to Fusco denying National Patent's bid protest as being untimely.

On October 8, 1992, CMI's patent attorney, King, wrote to Richard Johnson (CMI) confirming that he "authorized the use of an aluminum cell with a polished interior to avoid patent infringement." This may indicate the date on which CMI firmly decided on the make-up of the new Intoxilyzer 5000.

On October 12, 1992, interoffice memo re CMI Intoxilyzer 5000 project stated, "Testing has been done on a sample cell that is all aluminum as opposed to being nickel

plated. Results are good and all aluminum cells will be used in the first 20 instruments [in Oregon] we think that this will avoid any patent infringement issue. The light anodize cell will also be tested as a possible long term solution." This suggests that around the first part of October CMI settled upon a non-infringing metal for the new Intoxilyzer 5000.

On October 13, 1992, Schofield (CMI) wrote to U.S. DOT regarding changing from nickel plating to an aluminum cell. On October 15, 1992, CMI informed Forrester for the first time that it would use an untreated aluminum cell. On the same date, Forrester called the U.S. DOT to inform the DOT of the patent dispute and told it that CMI's instrument may fail.

On October 16, 1992, Forrester made comments to Missouri representatives at pre-bid conference regarding the patent dispute. The exact nature of the comments is not clear. Allegedly, Meyers (CMI) states that CMI would not be using pure untreated aluminum IR cells. All of this seems to highlight the debate going on between the two companies as to whether the use of untreated aluminum cells would produce valid results. Intoximeters believed that valid results could not be obtained through the use of untreated aluminum cells while CMI believes that valid results were obtainable by this method.

On October 19, 1992, Forrester is described as

communicating with Dr. Flores (U.S. DOT). Forrester stated that he believed if CMI implanted pure aluminum sample chambers in the Oregon unit, then CMI would circumvent Intoximeters patent. He also stated that if this implant is done, then units will be significantly different from what was evaluated by the state and DOT. As a result, he requested the DOT to evaluate the unit over a period of time long enough to assess the aluminum oxide problem. U. S. DOT did not receive its first aluminum cell dry gas calibration Intoxilyzer 5000 until November 1993. Apparently, Forrester's efforts did not cause U.S.DOT to reevaluate the new Intoxilyzer 5000, remove it from the approved products list, do anything or say anything to anyone.

On November 11, 1992, Forrester wrote to Thompson (Oregon) enclosing a copy a letter from Intoximeters' patent attorney, Polster dated the same date. Polster's letter sets forth Intoximeters' theory of infringement. It states:

> I realize that CMI has represented that its chamber is made of untreated 6063 aluminum. If the surface in fact untreated, it will have a coating of aluminum oxide, which your experience indicates will adsorb alcohol disproportionately from a dry standard, leading to erratic results as is explained in the specification of the patent, but not to infringement. If it is treated to make the surface nonabsorbent, then the method of standardization will be accurate, but it will infringe. Perhaps the State of Oregon will permit you to run tests preliminarily to determine if the chamber surface is adsorbent.

Polster's letter raises two unknowns: whether the surface of the chamber of the CMI machine is non-adsorbent and whether the CMI machine is standardized, calibrated or tested by the use of a dry gas sample. As the first trial revealed, the chamber surface was in fact made of untreated aluminum and therefore was not infringing upon the "418" patent. However, on November 11, Polster may have had no reason to know this. Polster merely gave opinion about the erratic results.

On December 2, 1992, Thompson wrote to Intoximeters stating that it does not consider the cell in violation of the patent and that the machine supplied by CMI will be calibrated by a dry gas standard. On December 3, 1992, Johnson (CMI) wrote to Forrester. He reasserts his opinion that

> the method of using a dry gas standard for calibration of the breath analyzer is dedicated to the public... the IR cell used in the Intoxilyzer 5000 for the State of Oregon is constructed out of untreated 6061 aluminum. There is no treatment in any form applied to the interior surface of the IR cell....

He also says that extensive testing shows no change in performance of the instrument. CMI sends one-half of unplated aluminum IR cell to Intoximeters for inspection.

On December 7, 1992, Forrester responds to Thompson. Forrester simply reiterates his disbelief that the chamber is

untreated. He says "I must conclude that the chamber material is treated." Most important, Forrester goes on to state that "our patent clearly covers the use of a dry gas standard with non-absorbent chambers in infrared breath testing instruments." This is an overly broad statement of the patent's scope. His assumption about the type of aluminum used turned out to be untrue. Forrester requests access to two chambers so that testing could be done by an "independent out of state metallurgist to establish their make-up." He finally states that "our desire is to correct a mistake that has apparently been made through an attempt to avoid a legal patent." This is an unclear statement to say the least.

On December 14, 1992, Fusco wrote Forrester to discuss his view that the use of the untreated aluminum IR cells is not "serviceable to the customer." The letter is presented as evidence of concerted action to convince someone that the utilization of the untreated cell with a dry gas standard "will not work." The letter contains the following statement:

> We did not use a type 6061 aluminum alloy and I would prefer to keep the type we use confidential. As you know, type 6061 is not a good choice from a number of standpoints, including the fact that it will oxidize an ambient air. We do use a clear anodized, treated after extruding and before machining. We do this because untreated aluminum rapidly oxides and stains in the cell causing an unacceptable loss of

> efficiency and offers little chance to clean or restore the cell. . . the cell I have sent you is about seven-years old. You will note that the main body of the cell is reasonably clean and reflective, considering the age. The scratches are from improper cleaning at some point. Note however, the ends of the cell where the light passes at a 90 degree angle to the horizontal passages. This part is machined after anodizing and exhibits the characteristic frosty appearance of oxidation.

Fusco seems to be saying that anodization is the key to an aluminum alloy which does not adsorb. Interestingly, Fusco would not want to disclose to Forrester the exact type of aluminum alloy. CMI contends that Fusco had no basis for making the statements contained in the letter and did no testing on extruded aluminum and merely adopted Forrester's comments. This letter was not sent to Oregon officials.

CMI alleges that during 1992 and 1993, the Forresters admitted to having fourteen (14) separate conversations in which Forrester is said to have criticized the Intoxilyzer 5000. These statements are referenced in CMI's Memorandum dated September 27, 1995 at pages 10-11 (DN 237). The Court has reviewed each of these interrogatories and concludes that they do not constitute "admissions" nor can they be fairly characterized in the manner suggested by CMI. Rather, most of these interrogatories describe, in a general way, conversations with various state officials concerning the use of a dry gas

standard with a pure untreated aluminum cell and whether such use would produce consistent results. Some reference the ongoing disagreement about this subject between CMI and Intoximeters. Others reflect conversations where officials queried whether their problems with CMI instruments could be related to this ongoing dispute between the two companies and described Intoximeters' belief that the use of a dry gas standard with the Intoxilyzer 5000 could potentially create patent problems. None of the interrogatories support the proposition that Intoximeters claimed that CMI's Intoxilyzer 5000, when used with a dry gas standard, infringes upon the "418" patent. Nor is there anything resembling the proposition that the Intoxilyzer 5000 will not work if it does not infringe, or in other words, does not use an extruded aluminum cell.

In early 1993 Missouri solicited bids for testing equipment. CMI is the sole bidder. Missouri rejects its bid as failing to meet bid specifications.

On February 25, 1993, Forrester wrote to Doug Marshall (Oregon) regarding CMI's patent infringement. Forrester asks that the state intellectual property office investigate whether the State of Oregon has infringed the "418" patent. On March 1, 1993, Intoximeters patent counsel, Polster, wrote the State of Oregon. Polster's letter merely restates the

previous arguments about either infringement or the unreliability of the Intoxilyzer 5000. He also says that CMI has asserted that the chamber is nonabsorbent. If that is true, its use with the dry gas standards is an infringement of the Intoximeters' patent. If it is not true, then the State of Oregon would seem to be a party to a deception that is likely to discredit the entire breath alcohol testing program, as defense attorneys begin to realize what is happening. Polster's conclusions about the infringement are at odds with the Court's findings.

On March 25, 1993, the International Association of Chemical Testing ("IACT") Conference convenes in Louisville. At the conference Fusco discussed CMI instruments with Michael Hurley (Oregon). CMI alleges that Fusco calls the instrument a "monstrosity" and says that the instrument was the "butt of several jokes." Glen Forrester (Intoximeters) gave technical discussion at the conference regarding the two prevalent analytic methods used for calibration of alcohol breath. In this discussion Glen Forrester comments on the problem that adsorption in IR cells and how this may produce erratic results. He does not specifically mention any product, but simply discusses the problem.

On March 29, 1993, Fusco wrote to Oregon questioning CMI's contract compliance. This letter begins by stating that

there was some speculation that the International Association of Chemical Testing Conference regarding whether the Intoxilyzer 5000 met generally accepted industry standards for material selection and construction. It questioned whether CMI was complying with the bid specification and asked the State of Oregon to provide certain information "so that we can make a determination of bid compliance." The letter appears to be a carefully stated request for information rather than directly accusatory. The State of Oregon did not give it much consideration, dismissing it with a terse response on April 19.

On April 13, 1993, Forrester wrote to Captain Brooks (Oregon) restating the debate that occurred at the IACT Convention to the effect that

> raw untreated aluminum will not violate the patent but that in Intoximeters' experience it will cause problems with the performance of the instrument.

In addition, Forrester states that

> if your results are consistent, it would be our contention that the sample chambers were not aluminum as CMI claims, and that we would wish to arrange to inspect a unit in your presence as outlined in our letter of December 2, 1992. If the surface of the CMI cell supplied to Oregon proved to have been treated to make them non-absorptive or the cells prove to be a nonreactive material, different from aluminum, Intoximeters would take whatever action it sees fit against the State of Oregon.

In early September 1993, Forrester is alleged to have called George Menart (Wisconsin) to state that the CMI equipment infringed on the '4418" patent if it calibrated with the dry gas standard and that the instrument would not work if it utilized an unplated aluminum cell with the dry gas standard.

On September 7, 1993, Forrester spoke with Tom Getske (Wisconsin) regarding Intoximeters' intention to sue the State of Wisconsin, if the State uses machines which incorporate a patented process. The letter does not directly accuse CMI of anything. On September 7, 1993, Sobitik (Assistant General Counsel, Wisconsin Dept. of Transportation) responded that "as I understand it, your company is threatening the Division of State Patrol with a lawsuit if it uses Intoxilyzer breath analysis machines that incorporate a breath analysis process patented by your company." Sobitik asked whether Forrester had any authority for obtaining an injunction. On September 7, 1993, Sobitik wrote Thomas Meyer (CMI) that "we will be making a decision on whether WISDOT will continue to use your machines in the near future." Sobitik enclosed a copy of his response to Forrester. He asked for any legal authority as to whether WISDOT will be liable in the event of a patent infringement.

On September 17, 1993, Forrester wrote Sobitik and

enclosed a copy of the "418" patent. The letter states in part:

> Since the patent in question deals with the use of a dry gas standard in a non-absorbent IR cell, the sale or manufacture of breath alcohol detection equipment with a nonabsorbent IR cells is not, in and of itself, an infringement. It is only when that instrument utilizes dry gas calibration that infringement can occur. That is why we indicated that Wisconsin needs to make an analysis of the facts to assert whether infringement will occur if it is intended to use the dry gas standard .... "the answer to that question [whether there is infringement or not] may vary based on model and date of manufacture. Again, that is why we sought clarification of the type of equipment Wisconsin intended to use with the dry gas standard."

On September 30, 1993, Forrester spoke by phone with Sobitik. Sobitik says that Forrester was very rude. Wisconsin continued to evaluate the breath testing machines. On October 4, 1993, CMI agreed to indemnify and hold harmless Wisconsin for any claims arising out of any alleged patent infringement.

The only other contact with Wisconsin occurred almost a year later, on August 12, 1994. At that time, Forrester attempted to have a correspondence with George Menart of the Wisconsin State Patrol regarding the litigation between CMI and Intoximeters. State of Wisconsin rules prohibit such contacts. Consequently, Sobitik called Wilbur Thompson (Intoximeters' attorney) to advise him that such contacts were not allowed and the State of Wisconsin would treat both CMI and Intoximeters as

fairly as possible.

On April 5, 1994, State of Missouri issued its third invitation for bid for breathalyser equipment. Both CMI and National Patent submit bids. National Patent was the low bidder and was awarded the contract.

II.

This Court must reflect upon its first Memorandum Opinion and Order in this case. *CMI v. Intoximeters, supra* The primary purpose of that Memorandum Opinion was to explain the Court's reasons for granting summary judgment to CMI on its request for a declaration of non-infringement. The Court also concluded that CMI is not entitled to judgment that the "418" patent is unenforceable due to inequitable conduct. The Court reserved a ruling on whether CMI was entitled to relief based upon patent misuse and whether CMI was entitled to attorneys' fees pursuant to 35 U.S.C. § 285.

In the process of doing all this, the Court commented upon the evidence as it existed at that time, and, more important, as related to specific patent issues before the Court. To a limited extent the Court wished to foreshadow some of the issues in the second phase of the trial. However, the Court's comments must be considered in their proper context. They were made without

reference to the elements required for any remaining common law causes of action. The Court's statements represent its consideration of patent related issues only, not the common law questions now at issue. Irrespective of the any stated opinion about the facts on patent issues, the Court cannot conjure up causes of action to fit those facts.

If it is true that one of Intoximeters' statements was "absolutely untenable," that fact is relevant only as to some of the elements in the common law issues. But those facts are not dispositive of all the required elements. For example, to label conduct potentially "anti-competitive" does not predetermine that the conduct caused any actual damages. Many of the Court's other comments concern Intoximeters' apparently mistaken belief that extruded aluminum would not produce adequate results and its expansive legal view of its own patent. These opinions, even if true, do not fully resolve all the elements of any remaining common law issues in the case.

The Court does not view its opinions concerning patent issues to be irreconcilable in any respect with dismissal of the pending common law claims.

III.

A federal court sitting in a diversity action must apply

the substantive law of the state in which it sits. *Erie Railroad Co. v. Tompkins*, 304 U.S. 64 (1938). In this case, unfortunately, no Kentucky court has comprehensively addressed all of the various torts asserted here. It is this Court's duty, therefore, to decide unsettled issues of state law as a Kentucky court would decide them. *Overstreet v. Norden Laboratories, Inc.*, 669 F.2d 1286, 1290 (1986). To do so, the Court must predict how our state courts would rule.

In construing a motion for summary judgment, a Court must determine whether the moving party has met the initial burden of showing that there is an absence of a genuine issue of material fact and that the moving party is entitled to judgment as a matter of law. *Fed R. Civ.P.* 56(c). The inquiry on summary judgment centers on whether "the evidence presents a sufficient disagreement to require submission to a jury or whether it is so one-sided that one party must prevail as a matter of law." *Street v. J. C Bradford & Co.*, 886 F.2d 1472, 1479 (6th Cir. 1989). Thus, the non-moving party, Plaintiff's here, must proffer evidence that points to disputes of material fact. *Celofex Corp. v. Cafrett, 477 U.S 317, 322-23* (1986).

CMI has had every opportunity to place in the record all the facts which may tend to prove unlawful actions by Defendants. The Court has set forth in detail those facts which

are material. No party has seriously questioned the accuracy or completeness of that summary. The Court now judges the sufficiency of the complaint on those facts.

IV.

The issue of damages is central to the Court's consideration of this case. Indeed, it is the precise character of CMI's damages, if any, which decides several of the issues before the Court. For that reason, it will be helpful to make a few comments now.

Earlier this year, CMI expressly limited its claims of lost contracts to four jurisdictions; the states of Oregon, Wisconsin, Missouri and the country of Australia. For reasons more clearly explained later in this Memorandum Opinion, CMI has shown no evidence of actual damages within any of these jurisdictions. In fact, it must be said that CMI has presented no proof that remotely links a lost sale to an action by Defendants. The Court has focused its attention on evidence of lost business for the Intoxilyzer 5000. No other market or product would appear to be relevant in this case.

For obvious reasons, CMI then retained the services of Dr. Douglas V. Austin to analyze CMI's financial reports and those of Intoximeters tend to give an opinion as to CMI's actual

damages caused by the actions of Intoximeters and National Patent. The Court has thoroughly examined Dr. Austin's proposed testimony and finds that it completely fails to suggest any damages within a reasonable degree of certainty.

Although CMI cannot identify a single specific lost customer or sale due to Defendants' actions, Dr. Austin "infers" a causal relationship between Defendants' increased profits and CMI's decreased sales. Among other things, Dr. Austin fashions a theory of"unjust enrichment" from these facts as well as from a comparison to overall industry performance. These theories have dubious legal value. More important, they are entirely and unacceptably speculative.

No one has disputed Dr. Austin's expertise. However, there is no foundation upon which Dr. Austin can conclude that any of CMI's financial results--either good or bad--have any causal relationship with actions by Intoximeters or National Patent. Dr. Austin's opinion is so clearly lacking this essential element that very little needs to be said. Under no circumstances could this Court allow a jury to consider opinions that, due to the absence of foundation or reasonable causal connection, amount to no more than sheer speculation.

V.

Since 1930, Kentucky has evolved from limited acknowledgment of business torts to support for business torts in certain well-defined circumstances. *See Brooks v. Patterson*, 234 Ky. 757, 29 S.W.2d 26 (1930); *Derby Road Building Co. v. Commonwealth*, Ky. 317 S.W.2d 891 (1958). Finally, in *Carmichael-Lynn-Nolan, etc. v. Bennett, etc.*, 561 S.W.2d 99 (Ky.App. 1978) the Kentucky Court of Appeals set forth the principles governing the tort of intentional interference with contractual relations. The court stated that §766 of the *Restatement (Second) of Torts* provides the correct guidelines. *Id.* at 102[1] In essence, to recover under this specific theory, CMI must prove the following elements: (1) the existence of a contract; (2) Defendants' knowledge of this contract; (3) that it intended to cause its breach; (4) its conduct caused the breach; (5) this breach resulted in damages to CMI; and (6) Defendant had no privilege or justification to excuse its conduct.

At a minimum, to be actionable, CMI must show that a contract existed between it and a third party followed by a

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[1]The Restatement (Second) of Torts, § 766, provides:

[e]xcept as stated in Section 698, one who, without a privilege to do so, induces or otherwise causes a third person not to

a) perform a contract with another, or

b) enter into or continue a business relation with another is liable to the other for the harm caused thereby.

breach by the third party. *Industrial Equipment Co. v. Emerson Elec. Co,* 554 F.2d 276, 289 (6th Cir. 1977). Theoretically, such circumstances might exist only in Oregon or Wisconsin. However, CMI concedes that it cannot prove the requisite breach of contract in either of these states or as to any other contracts. Thus, CMI's claim fails in an essential element of the cause of action.

Consequently, CMI urges this court to recognize a variation of this specific tort: intentional interference with the plaintiff's own performance of its contract. Citing no case law to support this variation, CMI defends its argument by citing §766A of the *Restatement (Second) of Torts* [2]and W. Haynes, *Kentucky Jurisprudence,* § 12-11 (1987). Haynes does not suggest that Kentucky either has or would adopt such a tort. No Kentucky courts have done so. However, the *Restatement* claims that the tort is now "consistently recognized." *Id.* at § 766A, p. 18.

Kentucky courts have been very cautious in expanding

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[2] §766A of the *Restatement, Torts* 2d, provides:

Intentional Interference with Another's Performance of His Own Contract

One who intentionally and improperly interferes with the performance of a contract... between another and a third person, by preventing the other from performing the contract or causing his performance to be more expensive or burdensome, is subject to liability to the other for the pecuniary loss resulting to him.

unduly the tort remedies available to those in contractual relationships. There are sound reasons for this caution. The actual language of § 766A is so all encompassing and vague that to adopt it directly would cause tremendous confusion without creating a clear societal benefit. The conduct conceivably within its scope could be indistinguishable from the kind of unfettered commerce upon which courts have been reluctant to pass judgment. Moreover, the available remedies address the most direct and readily identifiable harms. The torts discussed in § 766A necessarily involve highly speculative damages. Parties to contracts have a full array of contractual remedies to resolve inequities of performance caused by third persons. The Court is not persuaded that this new tort is necessary to correct a glaring inequity among commercial parties.

Finally, the kind of conduct which is theoretically actionable under this new tort may be of an entirely different quality and character than that found in this case. As examples of actionable conduct Haynes cites destroying building supplies, illegally preventing issuance of building permits, physical intimidation of employees or other kinds of physical interference. Haynes. *Kentucky Jurisprudence*, §12-11 (1987). Nothing of that character has occurred here.

The Court concludes that in these circumstances Kentucky courts would not apply the tort of interference with another's performance of his own contract.

VI.

CMI's claim of intentional interference with prospective advantage is conceptually similar to its claim for interference with an existing contract. In *National Coll. Athletic Ass 'n v. Hornung*, 754 S.W.2d 855 (Ky. 1988), the Supreme Court of Kentucky set forth the principles governing the tort of Intentional Interference with Prospective Advantage. It held that Sections 766B, 767 and 773 of the *Restatement (Second) of Torts* reflect the prevailing law in Kentucky.[3]

To recover under this cause of action, CMI must plead and prove the following elements: (1) the existence of a valid

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[3]Section 766B provides, in part:

Intentional Interference with Prospective Contractual Relation

One who intentionally and improperly interferes with another's prospective contractual relations . . . is subject to liability to the other for the pecuniary harm resulting from loss of the benefits of the relation, whether the interference consists of

(a) inducing or otherwise causing a third person not to enter into or continue the prospective relation
or
(b) preventing the other from acquiring or continuing the prospective relation.

business relationship or its expectancy; (2) a defendant's knowledge thereof; (3) an intentional act of interference; (4) an improper motive; (5) causation; and (6) special damages.

In deciding whether the actor's actions were improper, a court must consider the factors set forth in Section 767 of the *Restatement (Second) of Torts; Hornung*, 754 S.W.2d at 858. Those factors are (a) the nature of the actor's conduct, (b) the actor's motive, (c) the interests of the other with which the actor's conduct interferes, (d) the interests sought to be advanced by the actor, (e) the social interests in protecting the freedom of action of the actor and the contractual interests of the other, (f) the proximity or remoteness of the actor's conduct to the interference, and (g) the relations between the parties. Though a defendant's actions may be "improper," he may nevertheless not be liable, if he acted in *good faith* in asserting a legally protected interest. *Hornung*, 757 S.W.2d at 858.[4]

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[4]Section 773 of the *Restatement (Second) of Torts* explains this good faith exception. It states:

> **Asserting Bona Fide Claim**
>
> One who, by asserting in good faith a legally protected interest of his own or threatening in good faith to protect the interest by appropriate means, intentionally causes a third person not to perform an existing contract or enter into a prospective contractual relation with another does not interfere improperly with the other's relation if the actor believes that his interest may otherwise be impaired or destroyed by the performance of the contract or

The final element is damages. The question presented is whether the measure of damages in an action for interference with prospective advantage should be different than the measure clearly established in an action for interference with contractual relations. Logically, related causes of action require similar proof for damages. The Court can find no reason to create such a distinction between two torts which arise out of the same conceptual framework.

Under Kentucky law, CMI must allege and prove special damages to recover under this cause of action. *Henkin, Inc. v. Berea Bank & Trust Co.*, 566 S.W.2d 420, 425 (Ky.Ct.App. 1978). Section .766B of the *Restatement (Second) of Torts* states that one who intentionally interferes with the prospective relations of another is liable for the pecuniary damages suffered by the plaintiff. These damages must be proven to a reasonable degree of certainty. *See Musselman Bros. v. Dial-Huff & Assoc.*, 826 S.W.2d 838, 840 (Ky.Ct.App. 1992).[5] Ascertaining the damages to any legal degree of certainty can be difficult.

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transaction.

[5]The *Restatement* confirms this view: "One to whom another has tortiously caused harm is entitled to compensatory damages for the harm if, but only if, he establishes by proof the extent of the harm and the amount of money representing adequate compensation with as much certainty as the nature of the tort and the circumstances permit." *Restatement (Second) of Torts, §912.*

A review of the case law reveals that the terms 'special' damages and 'pecuniary' damages are used interchangeably. This is consistent with Kentucky's general requirement that an injured party prove "to a reasonable degree of certainty" its damages. Lost profits is an ascertainable measure of damages. *Carmichael -Lynch-Nolan, Etc. v. Bennett, Etc., 561* S.W.2d 99, 102 (Ky.Ct.App. 1977). This requirement has the salutary effect of weeding out claims which do not involve serious damaging conduct.

In this case, the continued viability of CMI's claims rests upon whether there is any evidence that Defendants either caused a third party not to enter into a contractual relationship or that they caused someone to discontinue an existing relationship. CMI has limited its claims to the states of Missouri, Wisconsin and Oregon and the country of Australia. For purposes of analysis, the Court will assume that CMI has established all elements except causation and special damages.

In the State of Missouri, CMI responded to three separate requests for bids concerning breath alcohol testing equipment. On the first two bids in 1992 and in 1993, the State declared that CMI's bid did not conform to the bid specifications and, therefore, did not award a contract in either case. On the rebid initiated in April 1994, National Patent was

the low bidder and received the contract.

No one disputes that on the third rebid National Patent was the low bidder and received the contract on that basis and for that reason alone. No facts in evidence suggest any other reason for the state's making its award in April 1994. Because these facts obviously cannot support a claim that Defendants caused CMI to lose the third rebid itself, the Court must determine whether any of Defendants' prior conduct caused the state to reject CMI on the first two occasions, thus denying it the contract before National Patent won it legally on the third try.

Missouri's stated reason for rejecting the first two bids (in which CMI was the only bidder) was that CMI's bid failed to conform to the bid specifications. The Court finds no evidence that the state abused its discretion by making these decisions. CMI makes no such argument. In fact, CMI appears to have made no protest of Missouri's decisions under the state's contracting rules. If the state lawfully rejected CMI's bid, then it cannot be said that Defendants unlawfully caused the state to so act. All the evidence is that to deny the first two bids was within the state's legal prerogative.

CMI's contentions focus upon Cliff Broeder's (NP) successful efforts to lobby numerous Missouri officials to remove Robert Walsh from the bid evaluation committee. Fusco

admits that because of his concern that Walsh was biased in favor of CMI, he made every effort to remove Walsh from the evaluation committee. CMI rested its case on the Walsh affidavit. However, that affidavit does not suggest any unlawful conduct by National Patent or Broeder. Of course, Walsh believed himself unbiased. However, the ultimate decision to remove him was neither his nor National Patent's, but rather one for the State of Missouri. Whether the decision to remove Walsh was correct could be argued either way. But there was no evidence that Walsh's removal was improperly procured. Even if it was, there is no evidence that Walsh's removal caused the State to either declare CMI's bid nonconforming on the first two occasions or to accept National Patent's low bid in April 1994. Without such proof, Walsh's removal is immaterial to our case.

Finally, during 1992 and 1993 Fusco complained bitterly to Missouri officials that its bid specifications unfairly barred National Patent from placing a bid on the State's breath alcohol analyzer instrument contract. He also suggested that CMI's product would not perform in a satisfactory manner. There is no evidence, however, that these comments caused Missouri to reject CMI's otherwise satisfactory bids. Such claims are pure speculation. Such speculation cannot support the conclusion that Missouri's decisions were legally flawed.

The facts concerning the States of Oregon and Wisconsin and the country of Australia are relatively more straightforward. In Oregon, CMI continues to perform its contract. The state has neither discontinued the relationship nor failed to enter into other prospective contractual relationships. Consequently, CMI has no claim as to any lost prospective contractual advantages in the State of Oregon.

As to Australia, CMI premises its case upon the contention that it would have won that contract had its corporate resources not been diverted and weakened by attending to Defendants' malefactions in Oregon and elsewhere. CMI acknowledges that it was unable to bid successfully in Australia because it could not resolve certain engineering and operational concerns raised by the testing officials there. As one consequence of CMI's failure to resolve these difficulties, the Australian authorities concluded in their own evaluation that the Intoxilyzers "as tested are not suitable for evidentiary purposes in Victoria." Presumably, this was one of the reasons why CMI did not receive the bid.

There is no evidence of direct contact between Defendants and Australian officials nor any evidence of Defendants' involvement in or attempted interference with the bid process. Defendants' conduct is simply far too remote to be

considered a causing agent. Moreover, there is absolutely no evidence, other than speculation, that CMI would have been awarded the bid had CMI solved the engineering and operational problems. For the same reasons, its proof fails to show that CMI suffered any damages to a reasonable degree of certainty.

The circumstances in Wisconsin are only slightly more complicated. It is not clear whether the State had bought other CMI equipment prior to the fall of 1993. In any event in late 1993 the State was again considering the purchase of breath alcohol analyzing equipment. As soon as this became known, Forrester made numerous contacts with state officials questioning whether the State might violate Intoximeters' "418" patent and questioning whether the CMI instrument would not work if it utilized an unplated aluminum cell with a dry gas standard. Forrester first contacted George Menart in September 1993, for this very purpose. According to Menart, Forrester was concerned that Wisconsin might be violating Intoximeters' patent with the use of Mathison gas on one of its units, 1400 Series. Menart stated that Forrester claimed that using a dry gas standard with the Intoxilyzer 5000 without paying some type of royalty would or could lead to possible patent problems.

Forrester spoke to Thomas Geske (Wisconsin) in early

fall about CMI's units which may involve the use of a dry gas standard and, therefore, might violate Intoximeters' patent. On September 17, 1993, Forrester wrote a letter to a Mr. Sobitik, Assistant Attorney General for the Wisconsin Department of Transportation.

The letter questions whether the litigation in this Court will resolve the issues presented in Wisconsin and states

> the answer to that question [whether there is an infringement or not] may vary based on the model or date of manufacture. Again, that is why we sought clarification of the type of equipment Wisconsin intended to use with the dry gas standard.

Forrester enclosed a copy of the "418" patent. Thereafter, Wisconsin requested and CMI provided an agreement to indemnify and hold harmless the State for all claims arising out of the alleged patent infringement.

In summary, there is absolutely no evidence from any source that the State of Wisconsin failed to enter into any intended contract or business relationship with CMI or that it discontinued an existing relationship with CMI. The evidence is exactly the contrary. Thus, regardless of whether Forrester's conduct meets any of the other elements required for intentional interference with prospective advantage, the evidence completely fails to show that the actions caused any response from the State of Wisconsin, other than to request

indemnification. Consequently, CMI has no evidence of damage within a reasonable degree of certainty.

For all those reasons, CMI's various claims for interference with prospective contractual relations do not meet the essential elements and must be dismissed.

VII.

As the Kentucky Court of Appeals aptly noted, the tort of defamation is "not a readily understood area of the law." *Columbia Sussex Corp., v. Hay,* 627 S.W.2d 270, 272 (Ky.Ct.App. 1981). Generally, defamation consists of the following elements: (1) defamatory language; (2) about the plaintiff; (3) which is published; (4) which caused injury to reputation. *Id.* The defamatory statement must be false. *Pennington v. Little, 99* S.W.2d 776 (Ky. 1936).

In theory, one may argue defamation under the tort of slander or the tort of libel. The two vary only as to the third element: the medium through which the alleged defamatory statements were made. Kentucky further delineates libel and slander actions into two subclasses: those that are *actionable per se* and those that are *actionable per quod Digest Publishing Co. v. Perry Publishing Co.,* 284 S.W.2d 832, 834 (Ky. 1955).

In *a per quod* action, the words themselves may or may

not be defamatory. Courts focus not upon the actual meaning of the words but on the extrinsic *facts* which explain the meaning of the communications. *Columbia Sussex,* 627 S.W.2d *at* 372. *See also Elkins v. Roberts,* 242 S.W.2d 994 (Ky. 1951). More important for the Court's analysis here, historically, damages to corporate reputation may be proven only by loss of profits caused by the defamation. The pecuniary loss must be a direct and proximate result of the defamation. *Sweeney, 60* S.W.2d at 383. Because CMI does not have evidence of a reasonably certain direct or proximate relationship between any communication of Defendants and lost profits by CMI, it cannot prove the essential elements of defamation *per quod.*

In an action for defamation *per se,* however, CMI need not plead or prove special damages. Rather, damages are presumed. Consequently, whether any of Defendants' communications constitute defamation *per se is* central to this case. However, a higher standard defines *a per se* action. To constitute *defamation per se, the* words in their essence

> must tend to expose the plaintiff to public hatred, ridicule, contempt or disgrace, or to induce an evil opinion of him in *the* minds of right-thinking people and to deprive him of their friendship, intercourse and society. But it is not necessary that *the* words imply a crime or impute a violation of laws, or involve moral turpitude or immoral conduct. *Id*

The Court must consider "if [the words] directly tend to the prejudice or injury of a person in his profession, trade or business." *White v. Hanks,* 255 S.W.2d 602 (Ky. 1953) *(slander per se); Tucker v. Kilgore,* 388 S.W.2d 112 (Ky. 1964) *(libel per se); Sweeney & Co. v. Brown,* 60 S.W.2d 381, 384 (Ky. 1933) ("to be *libelous per se,* [the words] must be of such nature that the court can presume as a matter of law that they tend to disgrace and degrade a person, or injure him in his business or profession, or to hold him up to public hatred or ridicule and cause him to be shunned and avoided."); *See also Columbia Sussex Corp., Inc. v. Hay,* 627 S.W.2d 270 (Ky.Ct.App. 1981); *White v. Hanks,* 255 S.W.2d at 603. (Words are *slanderous per se,* if they either directly or indirectly import "fraud, dishonesty, or sharp or unethical practices on the part of the [plaintiff.")

In determining whether a writing is *libelous per se,* courts must stay within the "four corners" of the written communication. The words must be given their ordinary, natural meaning as defined by an average lay person. The face of the writing must be stripped of all innuendos and explanations. *Sweeney,* 60 S.W.2d at 394; *Digest Publishing,* 284 S.W.2d at 834. In a *slander per se* action, if the words imply a crime or impute a violation of the law, the requisite

elements are met. *Columbia Sussex*, 627 S.W.2d at 274.

These concepts are certainly important. However, it is more important that they be understood and analyzed within the context of this case, which is that the defamation alleged concerns a corporation and one of its products. The Court has carefully considered the circumstances in a business setting which might constitute defamation *per se*. The doctrine of defamation *per se* grew out of a need to provide individuals a remedy for statements which damaged their reputations by the very nature of the words where the individuals could not prove actual damages. The concept makes a great deal of sense in a personal context.

So far as the Court can tell, considerably less thought has been devoted to applying these concepts to the entirely different setting of business relationships and corporate competition. Businesses do not have personalities that are hurt so intangibly. If a business is damaged, the damage is usually reflected in the loss of revenues or profits. Therefore, courts should be very cautious about labeling as defamed)n per *se* comments made about a corporation or its products.

Few cases have addressed the issue of whether criticism or disparaging words about a company's products are *actionable per se*. It has been said that the "words [must]

contain an imputation of fraud, deceit, dishonesty or other reprehensible conduct on the part of the merchant." *White v. Hanks,* 255 S.W.2d at 603. Sometime ago Judge Ballantine appeared to assume that unless "the words contain an imputation of fraud, decent, dishonesty or other reprehensible conduct" they are not *actionable per se. Mario 's Enterprises, Inc. v. Morton Norwich Products,* 487 F.Supp. 1308, 1310 (W.D. Ky. 1980). To merely say bad things about a product or to say, in so many words, that it will fail in its essential purpose, would seem not to constitute defamation per *se.* 255 S.W.2d at 603.

It is not easy to conclude that CMI is exposed to "public hatred, ridicule, contempt or disgrace" by statements that it infringed upon a patent or that one of its products cannot possibly work. Without more, the charge that a product does not work is not intrinsically defamatory. For if there are reasons given for the opinion, as here, it has the appearance of normal competition in the marketplace.

Similarly, depending on how a statement is made, a charge of patent infringement would not hold a company to hatred, ridicule or disgrace. Among business people, patents are known to be complicated and in infringement issues even more so. The statement by one party that another is infringing does not carry an intrinsic moral or business turpitude. For instance,

it is not the same as calling one a liar, bankrupt or untrustworthy. However, the words need not impute moral turpitude or immoral conduct to a corporation in order to be defamation per *se*. The Court cannot say that simply stating that a corporation violates a legal patent will constitute defamation *per se*. Therefore, the Court has no alternative other than to review each separate statement or writing alleged to determine whether it could meet the standard of defamation per

The July 29, 1992, letter does not charge CMI with patent infringement. It makes a suggestion that Oregon's specifications will result in an infringement. It exaggerates the scope of the patent, but not in the context of a statement against CMI. The fact that it caused the State of Oregon to request indemnification for patent infringement does not impute defamation.

The comments at the T-92 conference may show malice, but may not constitute defamation. CMI declaimed knowledge of other evidence of specific comments to third parties at that conference.

Forrester's comments to Missouri officials at the October 16, 1992, pre-bid conference are not specific enough to be classified as defamation *per se*. They "concerned" the on-going patent dispute. None of the statements, and there are only very

few, attributed to Forrester or Fusco in Missouri rise to the level of defamation *per se*.

The October 5, 1992, letter incorrectly suggests that the Oregon bid specifications would require a successful bidder to infringe on the "418" patent. However, it makes no comment against CMI National Patent's letters of October 6, 1992, are formal letters of inquiry and protest. The November 11, 1992, letter containing Polster's letter states an incorrect interpretation of the patent scope. It incorrectly asserts the opinion that an untreated surface will produce inaccurate results. Polster's letter is in the nature of a patent opinion and is somewhat qualified. Forrester's December 7, 1992, letter implies that CMI is lying about the chamber material and that CMI is unlawfully evading the patent. He states an exaggerated scope of the patent. None of these letters constitute defamation *per se*.

The March 1993, Louisville conference is the alleged source of numerous defamatory statements. However, a thorough review and discussion at the conference reveals no specific statements to third parties. CMI also relies upon fourteen (14) of Forrester's statements as referenced on pages 10 and 11 of its CMI's Memorandum (Docket No. 237). As becomes clear from the Court's earlier review, none of these comments as reported intrinsically convey the reprehensible

conviction of defamation *per se*. Quite simply, these statements are neither specific enough nor critical enough to be defamation *per se*.

Polster's March 1, 1993, letter exaggerates the patent. It also accuses Oregon of being a party to a deception that CMI is the initiator of the deception. The statements are so conditioned and, quite frankly, so confusing that it would be difficult to call any of them defamatory at all. Fusco's March 29, 1993, letter repeats speculation and asks Oregon to provide information. It is carefully worded and is not defamatory.

Forrester's April 13, 1993, letter to Oregon officials implies a deception by CMI as to the true composition of its chamber. It goes without saying that Oregon had actual knowledge of the alloy composition and, therefore, could not be deceived. On the other hand, Forrester still had not conducted an on-site inspection of the Intoxilyzer 5000. He qualifies the criticism of untreated aluminum cells by giving an opinion based on "Intoximeters experience." Among other things, in view of its qualifications, this letter cannot qualify as defamation *per se*.

Forrester's various communications to Wisconsin officials exaggerate the "418" patent. But they may fall short of even accusing CMI of patent infringement. The September 17

letter, for instance, contains no defamatory statements. It seeks clarification from the State. The allegations of verbal communication are somewhat general but intend to track the written correspondence. Clearly, none of the communications are defamatory per *se*.

The Court can find no statements to Australian officials which constitute defamation *per se*.

VIII.

To constitute a claim of misrepresentation or actionable fraud under Kentucky law, CMI must plead and prove the following elements: material misrepresentation, falsity, scienter or recklessness, intention, reliance, deception and injury. *Scott v. Farmers State Bank*, 410 S.W.2d 717, 720 (Ky. 1966). In other words,

> [I]t must appear: (1) that defendant made a material representation; (2) that it was false; (3) that when he made it he knew that it was false, or made it recklessly without any knowledge of its truth, and as a positive assertion; (4) that he made it with the intention that it should be acted upon *by plaintiff; (5) that plaintiff acted in reliance* upon it; and (6) that he thereby suffered injury.

Miles v. Proffitt, 266 S.W.2d 333, 335 (Ky. 1954) (emphasis added), *overruled in part, Sebastian v. Floyd*, 585 S.W.2d 381 (Ky. 1979).

CMI alleges that Defendants or their agents "intentionally misrepresented to prospective customers and users of the CMI products that said products were flawed and ineffective" (Pl.'s Compl.1150); that Defendants "knew or should have known... that such representations would be acted upon by the customers and users of CMI products" (1151); and "as a direct and proximate result of said intentional misrepresentations, CMI has been severely damaged . . . (¶52).

The essence of any misrepresentation claim mandates that the defendant *misrepresented a material fact to the plaintiff:* that the plaintiff relied thereon, and that *the plaintiff 's reliance caused the consequential damages. CMI* does not allege that the Defendants misrepresented any material fact to it. Nor does CMI claim it relied upon any alleged misrepresentation. Finally, CMI cannot prove that its reliance caused the alleged damages. Citing no case law in support of its argument, Cmi urges this Court to expand the scope of an actionable fraud claim by permitting it to assert a claim based upon third party rights. CMI wants to "'stand in the place' of those customers with reference to the issues of intentional misrepresentation and reliance upon the same." (Pl.'s Reply p. 55). While novel in its genesis, Kentucky courts have not recognized such an argument. CMI cites no persuasive authority to suggest that it

should.

Therefore, this Court has no basis upon which to predict that Kentucky would expand its law as to misrepresentation. CMI's claims must be dismissed.

IX.

A dearth of case law in Kentucky exists governing the tort of injurious falsehood. No Kentucky court has formally recognized it. Consequently, CMI focuses upon *General Electric Co., v. Sargent & Lundy,* 916 F.2d 1119 (6th Cir. 1990); an opinion in which the Sixth Circuit defined the tort of injurious falsehood. Untangling the origins and subtle nuances of this tort is not easy. However, it is an important and illuminating task for it convinces the Court that Kentucky courts would not create such a new cause of action.

In *General Electric v. Sargent & Lundy,* the issue as to whether Kentucky would recognize the tort of injurious falsehood was not before the court. However, the district court had adopted the tort and the Sixth Circuit merely restated the basis for that ruling. The lower court based its decision in large part on the fact that Kentucky recognized related torts, Kentucky traditionally relied upon the *Restatement* as authority, and a Kentucky Court of Appeals' quotation of Prosser

acknowledged the existence of this tort. The Sixth Circuit defined 'injurious falsehood' as follows:

> Injurious falsehood consists of the publication of matter derogatory to the plaintifFs title to his property, or its quality, or to his business in general . . . of a kind calculated to prevent others from dealing with him or otherwise to interfere with his relations with others to his disadvantage.

Id at 1124 (citing W. Keeton, *Prosser and Keeton on the Law of Torts* §128, at 967 (5th ed. 1984).

The *Restatement (Second) of Torts* §623A sets forth a general definition of the tort. It provides:

> §623A. Liability for Publication of Injurious Falsehood--General Principle
>
> One who publishes a false statement harmful to the interests of another is subject to liability for pecuniary loss resulting to the other if
>
> (a) he intends for publication of the statement to result in harm to interests of the other having a pecuniary value, or either recognizes or should recognize that it is likely to do so, and
>
> (b) he knows that the statement is false or acts in reckless disregard of its truth or falsity.

The *Restatement* further delineates injurious falsehood into the tort of slander of title[6] and the tort of trade libel.[7] Although by

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[6] §624 of the *Restatement (Second) of Torts* provides:

Disparagement of Property--Slander of Title

no means an exhaustive list of specific applications of §623A's general principles, these are two of the more common bases for arguing harms to interests having a pecuniary value.

Prosser notes that injurious falsehood developed out of the "slander of title" tort. The grounds traditionally involved the defendant's allegedly calling into question plaintiffs title to property. The tort later evolved to include written aspersions, questioning one's title to non-realty, and disparaging the quality of property, a product or the business itself. W. Keeton, *Prosser and Keeton on the Law of Torts §128, p.* 963 (5th Ed. 1984). Prosser notes, for example, that if the publisher of the comment claims that plaintiffs infringing defendant's patent, this certainly does not disparage the quality of the plaintiffs product. In this

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The rules on liability for the publication of an injurious falsehood stated in §623A apply to the publication of a false statement disparaging another's property rights in land, chattels or intangible things, that the publisher could recognize as likely to result in pecuniary harm to the other through the conduct of third persons in respect to the other's interests in the property.

[7] §626 of the *Restatement (Second) of Torts* provides:

Disparagement of Quality--Trade Libel

The rules on liability for the publication of an injurious falsehood stated in §623A apply to the publication of matter disparaging the quality of another's land, chattels or intangible things, that the publisher should recognize as likely to result in pecuniary loss to the other through the conduct of a third person in respect to the other's interests in the property.

instance, the crux of plaintiff's claim, Prosser maintains, is interference with an economic advantage.[8] The *Restatement is* quite clear that the tort provides a remedy for an attack on the quality of the good itself. However, if the plaintiff also claims that its reputation is damaged by defendant's claiming that plaintiff sold instruments which do not work, then the plaintiffs recourse is a claim of defamation. *See* §626, Comment d, *Restatement (Second) of Torts.*

The tort's final metamorphosis resulted in the denomination of 'injurious falsehood.' This final change may have so loosened the tort's historic roots that it is now confused with preexisting torts for which it is not an alternative. The scope of the tort, for instance, was not intended to include harm to personal reputation (a defamation action) nor was it designed to remedy harm caused by interference with contracts or prospective economic advantage. An unfortunate additional consequence of using the generic term 'injurious falsehood' is

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[8]In describing injurious falsehood, Prosser stated that

> [T]oo much emphasis has been placed upon the property element. The gist of the tort is the interference with the prospect of sale or some other advantageous relation; and it is equally possible to disparage the plaintiff~s business . . . A common illustration is the assertion that the sale of the plaintiffs product infringes the defendant's patent . . . which is scarcely can be said to disparage the title or quality of the goods themselves. The disparagement may be by implication. W. Keeton, *Prosser and Keeton on the Law of Torts*, § _ *p.* 966 (5th Ed. 1984).

that the once separate torts of 'slander of title' and 'trade libel' are now meshed. Consequently, courts are left with the dilemma of determining whether a state who recognizes the former would now, in fact, recognize the latter.

Kentucky courts do recognize the tort of slander of title. *Bonnie Brai Farms, Inc. v. Robinson*, 598 S.W.2d 765 (Ky. Ct. App. 1980). On the other hand, they have not specifically used the term 'trade libel' or the generic term 'injurious falsehood' to describe an injury resulting to one's products or reputation in general. Rather, the courts have generally classified such claims as defamation. *See White v. Hanks*, 255 S.W.2d 602, 603 (Ky. 1953) (In an action for slander, the Court said that "the accepted rule [is] that disparaging words spoken with reference to goods sold by a merchant are not actionable *per se* unless the words contain an imputation of fraud, deceit, dishonesty or other reprehensible conduct on the part of the merchant"); KFC v. *Sanders*, 563 S.W.2d 8 (Ky. 1978) [In a defamation cause of action, plaintiff claimed Colonel Sanders defamed its restaurant and its products (mashed potatoes and fried chicken). The Supreme Court affirmed the dismissal of the case because plaintiff failed to prove it was the target of the Colonel's comments. However, of significance is the Supreme Court's classifying the disparaging comments of the products as a

defamation cause of action.). *See also Mario 's Enterprises, Inc. v. Morton-Norwich Products,* 487 F. Supp 1308 (W.D.Ky 1980).

Those grappling with the tort's scope and application are not found exclusively in the jurisdiction of Kentucky. The Federal Court of Appeals for the District of Columbia wrestled with distinction between defamation and injurious falsehood. In refusing to recognize the torts as separate causes of actions, it stated:

> Although distinctions exist at common law between actions for injurious falsehood and defamation, the torts have always been very closely related. (Citations omitted). Moreover, changes in the law of defamation produced by first amendment decision have further minimized the common law distinctions between the torts. (Citations omitted). The primary difference between injurious falsehood and defamation is the requirement in an injurious falsehood action of pecuniary harm. (Citations omitted). Even this distinction is negligible, however; a corporation suing for defamation, for example may only recover actual damages in the form of lost profits (Citation omitted). Art Metal's argument, therefore, is based on an illusory distinction between its interest in its reputation (which would be vindicated by a defamation action showing lost profits) and its pecuniary interest in its products (which would be vindicated by an injurious falsehood action requiring pecuniary harm).

Arts Metal—U.S.A., Inc. v. United States, 753 F.2d 1151, 1155-56 (D.C.Cir. 1985).

Adding more confusion to the matter is the following

observation made by Prosser:

> [Injurious falsehood] is a useful [term] by which to distinguish personal defamation claims. Since in every case of injurious falsehood the plaintiff must prove special damage, such as the loss of a present or prospective advantage, it seems clear that the injurious falsehood claim should be regarded merely as one form of intentional interference with economic relations rather than as a branch of the more general harm to reputation involved in libel and slander ....

Prosser, *Law of Torts*, 5th Edition, at page 964; *see also Sargent & Lundy*, at 1124.

The parties cite *Gray v. Central Bank & Trust Co.*, 562 S.W.2d 656 (}Ky.Ct.App. 1978) as persuasive authority on the issue of whether Kentucky would recognize the general tort of injurious falsehood. In Gray the Court of Appeals addressed whether the torts of defamation and intentional interference with prospective contractual relationships were separate causes of actions. In concluding in the affirmative, the court quoted Prosser.[9] However, its analysis did not end at that point. If the *Gray* Court were to recognize the two torts as separate causes of actions, it

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[9]Prosser, in his treatise, Law *of Torts*, 4th Edition, Chapter 25, Section 130, at page 926 states:

> Defamation, interference with contract, injurious falsehood, and the broader tort of interference with prospective economic relations, are all different phases of the same general wrong of depriving plaintiff of beneficial relations with others . . . the greatest protection is given to personal reputation, and existing contracts, the least to competitive interest in future advantage.

562 S.W.2d at 658.

had to consider whether the law of privileges applied to the new tort. The court concluded in the affirmative.

The Court finds that it requires a leap of faith unsupported by logic, policy or Prosser to say that *Gray* suggests support for a new tort of injurious falsehood. First, the Court of Appeals cited Prosser merely for the proposition that defamation and intentional interference with contractual relations were separate torts. Prosser noted only that "the greatest protection is given to personal reputation, and existing contracts, the least to competitive interest in future advantage." Omitted is any reference to the tort of injurious falsehood; the *Gray* Court was equally silent on the matter.

Second, the Gray Court may have rightly assumed that the tort of injurious falsehood does not give rise to a separate cause of action. Instead, Kentucky's current tort law provides the appropriate remedy for which the tort of injurious falsehood was traditionally designed to give. Third, the Prosser quote applies only to the extent that it defines the scope of the respective privilege. Absolute privileges applied to all ***recognized*** torts. Kentucky courts have not recognized this new tort and it is entirely unclear that Prosser counsels the state to do

so.[10]

The Court concludes that there is insufficient authority upon which it could predict that Kentucky courts would establish an entirely new cause of action for injurious falsehood. Kentucky courts have consistently considered similar circumstances under the rubric of defamation. Indeed, the same set of facts which CMI argues is an injurious falsehood also could give rise to claims of defamation, slander of title, intentional interference with prospective advantage and contractual relations. No one has satisfactorily explained the unfairness addressed by the tort of injurious falsehood, which are not already covered by existing law. No one has explained the necessity of the new tort nor set out important interests of justice which the cause would secure.

Although Kentucky's courts have had many opportunities to articulate a new tort such as injurious falsehood,

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[10]At page 924, Prosser further states:

> In general, it may be said that injurious falsehood which is a tort that never has been greatly favored by the law, is *subject to all of the privileges* recognized both in cases of personal defamation and in those of other types of *interference with economic advantage*. The question of *absolute privilege* to disparage in judicial, legislative, and executive proceedings has seldom arisen, except in connection with pleadings, motions, and the like in the course of litigation, *where it has been recognized*.

they have failed to do so.[11] The Court finds no compelling policy reasons for the new tort. It provides limited additional protection for corporations and their products. While Kentucky courts traditionally have expanded legal vistas to protect consumers, the courts' interest seems less focused upon additional legal rights for corporations. Perhaps there are good policy reasons for this cautious attitude. In any event, the Court finds no compelling reason to take a step which Kentucky state courts have thus & declined to make.

X.

In order state a RICO claim under 18 U.S.C. §1962(c), a plaintiff must allege the following elements: (1) conduct (2) of an enterprise (3) through a pattern of racketeering activity. *Sedima, S.P.RL. v. Imrez, Co.*, 473 U.S. 479, 496 (1985). Section 1961(1)(B) of Title 18 sets forth conduct that could be classified as a racketeering activity or predicate acts. CMI relies upon the mail and wire fraud statutes, 18 U.S.C. §§ 1341 and 1343 respectively, in pursuing its civil RICO claim. A plaintiff

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[11] Simply because the tort finds a place in the pages of the *Restatement (Second) of Torts* and, thus, receives a mention in Haynes, *Kentucky Jurisprudence*, does not mean that Kentucky would approve it. Kentucky's common law has on occasion developed quite competently without aid of the *Restatement*. For example, Kentucky courts have apparently never found the need to adopt *Restatement (Second) of Torts*, §558, regarding defamation.

alleging a civil RICO action based upon fraud must "state with particularity the false statement of fact made by the defendant which the plaintiff relied on and the facts showing the plaintiff's reliance on defendant's false statement of fact." *Blount Financial Services, Inc., v. Walter E. Heller & Company,* 819 F.2d 151, 152 (6th Cir. 1987). *Ct.*. Fed.R.Civ.P. 9(b).

A criminal conviction of the defendant for mail or wire fraud is not a condition of a plaintiffs arguing these as the basis for its civil RICO suit. "[H]owever, the conduct used to support a civil RICO action must be *indictable.* (Citation omitted)." *Central Distributors of Beer, Inc., v. Conn,* 5 F.3d 181, 183 (6th Cir. 1993) (emphasis in the original). Consequently, the plaintiff must prove each of the requisite elements of the respective offenses to maintain its civil RICO action. Id.

The following elements must be alleged and ultimately proven to recover for mail fraud: "(1) the defendants formed a scheme or artifice to defraud; (2) the defendants used the United States mails or caused a use of the United States mails in furtherance of the scheme; and (3) the defendants did so with the specific intent to deceive or defraud. Similarly, a wire fraud violations [sic] consists of (1) the formation of a scheme or artifice to defraud; (2) use of the United States wires or causing a use of the United States wires in furtherance of the scheme;

and (3) specific intent to deceive or defraud." *Id.* [Quoting *Schreiber Distributing Co., v . Serv-Well Furniture Co.,* 806 F.2d 1393, 1399-1400 (9th Cir. 1986)]. Civil RICO was designed to remedy, *inter alia,* harm caused to *the plaintiff* as a result of plaintiff~s *reliance upon* a defendant's alleged fraudulent use of the wire or mail. The Sixth

Circuit stated:

> [Plaintiff] cannot maintain a civil RICO claim against these defendants absent evidence that the defendants made misrepresentations or omission of material fact to [plaintiff] and evidence that [plaintiff] relied on those misrepresentations or omissions to its detriment. (Citations omitted).

Central Distributors, 5 F.3d at 184. The court went on to say:

> In our opinion, the fraud connected with mail or wire fraud must involve misrepresentation of omissions flowing from the defendant to the plaintiff. Although a general fraudulent scheme which incidentally affects a person may support other civil claims against the wrongdoer, the victim *cannot assert a RICO claim absent evidence that the defendant made representations to the victim.* [Plaintiff] has not produced a shred of evidence showing that any of the defendants made any false statements or omissions to [plaintiff] or that *[plaintiff) relied on any statement or omission to its detriment....* Although the defendants may have committed other wrongs by this scheme, nothing in the record supports [plaintiff's] claim that the defendants violated RICO in any way.

Id. (Emphasis added).

It appears that CMI has missed the crux of the

Defendants' argument: CMI failed to allege and prove that it relied upon any alleged fraudulent statements made by Defendants. The gravamen of this Court's decision, like its reasoning for dismissing the misrepresentation cause of action, is the utter lack of allegations or proof that the statements upon which CMI bases its claim were made to it, and/or its reliance upon said misrepresentations. Under these circumstances, the RICO claim cannot stand.

XI.

The Court now turns to the issue of patent misuse. Defendants move for summary judgment on this issue arguing that patent misuse is not an affirmative cause of action. After again reviewing the existing case law, the Court must agree. Patent misuse cannot be the basis of a cause of action. Rather, it is an *affirmative defense* to a patent holder's claim of infringement.

In *Transition Electronic Corp. v. Hughes Aircraft Co.*, 487 F. Supp 885 (D.C.Mass. 1980), the District Court addressed what it described as a case of first impression: Can patent misuse be a basis for a cause of action? In ruling negatively, it discussed the history of this equitable defense and the purposes behind its genesis. The Court agrees with the analysis offered by

the *Transition* Court. It stated:

> Patent misuse was developed as an equitable doctrine to provide an equitable defense, analogous to the clean hands defense, against an infringement action. (Citation omitted). A patentee may commit patent misuse in improper exploitation of the patent either by violating the antitrust laws or extending the patent beyond its lawful scope. That the doctrine does not create an independent cause of action for the alleged infringer is implicit in the black letter statement of the effect of finding patent misuse: "Misuse of a patent merely suspends the owner's right to recover for infringement of a patent." The courts have uniformly held that the owner's rights to recover for infringement is reinstated once the offensive practice has been abandoned and its effects have been purged.

Id. 487 F.Supp at 893. The fact that alternative causes of actions existed further persuaded the court that patent misuse could not give rise to an independent cause of action. The same logic and circumstances, now persuade this Court to reach the same conclusion. In essence, CMI has achieved, in great measure, the equitable relief it needed: (1) this Court's determination that the Intoxilyzer 5000 did not infringe on the "418" patent and (2) this Court's conclusion that Intoximeters had no basis for stating that the extruded aluminum cell did not cause unreliable results.

XII.

Pursuant to 35 U.S.C. § 235, CMI has requested attorneys' fees. The Code gives a court the discretion to award

attorneys' fees to the prevailing party of a patent infringement case in exceptional cases. The Sixth Circuit has interpreted 'exceptional cases' to mean those circumstances "incorporating concepts of fraud, malice, bad faith and other similar concepts. (Citations omitted)." *Deyerle v. Wright Manuf: Co.*, 496 F.2d 45, 54 (6th Cir. 1974). In reaching its decision, a court must make specific findings of"conduct that is unfair, in bad faith, inequitable or unconscionable. (Citation omitted)." *Id.* The burden is upon the party requesting the fees to prove by clear and convincing evidence that it merits the exceptional case status. *Badalamenti v. Dunham's, Inc.*, 896 F.21 1 1359, 1364 (Fed.Cir. 1990).

However, one caveat exists. A prevailing party may recover only the attorneys' fees reasonably related to the prosecution of its patent claims. *Deyerle*, 496 F.2d at 54. (If an action contains both patent and non-patent claims, the party may not recover attorneys' fees for the non-patent related claims); *Monolith Portland Midwest Co. v. Kaiser Aluminum & Chemical Corp.*, 407 F.2d 288 (9th Cir. 1969).

The resolution of various common law claims by this Court or a jury have no bearing upon the decision to classify this case as exceptional. In the common law claims, the Court examines Defendants' actions as they impact Plaintiff. In

determining an exceptional case, the Court focuses upon conduct "unfair, inequitable or unconscionable" as to the patent, which also affected Plaintiff.

The different focus of this inquiry requires the Court to consider Intoximeters' knowledge of the patent and its origins as well as its claims. The Court continues to believe that the conduct found here may well constitute an exceptional case under 35 U.S.C. § 285.

By separate order the Court will set a schedule for further and final briefing of this issue.

The Court will enter an order consistent with this Memorandum Opinion.

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
AT LOUISVILLE

CIVIL ACTION NO. C93-0265-L(H)

CMI, INC. **PLAINTIFF**

V.

INTOXIMETERS, INC., et. al. DEFENDANTS

ORDER

The Court having reviewed the excellent memoranda of counsel and being otherwise sufficiently advised,

IT IS HEREBY ORDERED that the motion for summary judgment of National Patent is SUSTAINED and all claims against National Patent are DISMISSED WITH PREJUDICE.

IT IS FURTHER ORDERED that the motion for summary judgment of Intoximeters is SUSTAINED and all claims against it are DISMISSED WITH PREJUDICE except the remaining claim for attorneys' fees pursuant to 35 U.S.C. §235.

This 16th day of November, 1995.

= S =
JOHN G. HEYBURN, II
JUDGE, U.S. DISTRICT COURT

APPENDIX C

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
AT LOUISVILLE
CIVIL ACTION NO. C93-0265-L(H)

CMI INC. **PLAINTIFF**

V

INTOXIMETERS, INC., et al. **DEFENDANTS**

ORDER

The Court met with counsel for all parties on November 1, 1995. At that time the Court engaged in a thorough discussion of all pending motions. The Court intends to issue its Memorandum Opinion and Order in the near future. The Court being otherwise sufficiently advised,

IT IS HEREBY ORDERED that the trial scheduled for November 13, 1995, is continued.

IT IS FURTHER ORDERED that the following briefing schedule is established on the issue of whether this is an exceptional case under 35 U.S.C. §235. On or before November 17, 1995, Plaintiff shall file its memoranda in support of summary judgment. On or before December 4, 1995, Defendants may respond. On or before December 11, 1995, Plaintiff may reply.

This 8th day of November, 1995.

= s =

JOHN G. HEYBURN, II
JUDGE, U.S. DISTRICT COURT

APPENDIX D

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
AT LOUISVILLE
CIVIL ACTION NO. 93CV-265-L(H)

CMI, INC. PLAINTIFF

v.

INTOXIMETERS, INC., et al. DEFENDANTS

MEMORANDUM OPINION

CMI has moved for an award of attorney's fees pursuant to 35 U.S.C. §285 arguing that this case is an "exceptional" one meriting such fees. To a great extent CMI relies upon this Court's prior findings set forth in its November 1, 1994, Memorandum Opinion and Order (the "1994 Opinion") to support its claim. CMI argues that the following "findings" by the Court by definition qualify this case as "exceptional" for §285 purposes: Intoximeters' position was "untenable;" Intoximeters "did not fairly investigate" and made "claims which it could never substantiate;" Intoximeters' claims that its patent covered CMI's methods was "unfair and insupportable;" and Intoximeters' actions were "highly anti-competitive."

Under 35 U.S.C. §285, "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party."

This provision is in direct contravention of the American rule, that absent this specific statutory framework, each party must bear its respective litigation costs. Consequently, it must be strictly applied. Section 285 is intended to provide the Court discretion to award fees where it would be "grossly unjust" for the winner to bear the burden of the counsel fees. *J.P. Stevens Co. v. Lex Tex, Ltd,* 822 F.2d 1047, 1052 (Fed.Cir. 1987). To recover the attorneys' fees, the moving party must prove the following elements: (1) the party awarded attorneys' fees must be the "prevailing party;" (2) attorneys' fees may be awarded only in "exceptional" cases; (3) a court "may" award or deny attorneys' fees in its discretion (footnote omitted); and (4) attorneys' fees awarded must be "reasonable." *Monolith Portland Midwest Co., v. Kaiser Aluminum & Chem. Corp.,* 407 F.2d 288, 293 (9th Cir. 1969). The party requesting the fees must prove by clear and convincing evidence that it merits the exceptional case status. *Badalamenti v. Dunham's, Inc.,* 896 F.2d 1359, 1364 (Fed. Cir. 1990).[1]

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[1]As to most of this litigation, Plaintiff is not a prevailing party, having succeeded only in its affirmative claim of non-infringement. Defendant suggests that Plaintiff is not a prevailing party for purposes of § 285 because it succeeded in only an insignificant aspect of the case. In fact, Defendant says that it never claimed that a pure aluminum cell infringed upon the patent. Thus, Plaintiff prevailed only on a claim which was uncontested. It

The Sixth Circuit has interpreted the "exceptional case" requirement to entail those circumstances "incorporating concepts of fraud, malice, bad faith and other similar concepts (citations omitted)." *Deyerle v. Wight Manuf. Co.*, 496 F.2d 4S, 54 (6th Cir. 1974). In reaching its decision, a court makes specific findings that there exists conduct "[which] . . . is unfair, in bad faith, inequitable or unconscionable. (citation omitted)." *Id* The Federal Circuit has opined that conduct meriting the "exceptional case" status involves instances of willful infringement, inequitable conduct before the Patent and Trademark Office (P.T.O), misconduct during litigation, vexatious or unjustified litigation, and filing of frivolous suits. *Beckman Instruments, Inc., v. LKB Produkter AB*, 899 F.2d 1547, 1 5S 1 (Fed.Cir. 1989). Neither willful infringement nor a frivolous filing applies here. The Court has already found that there was no inequitable conduct before the patent office. Consequently, the only grounds upon which the Court could find the "exceptional case" is as a result of misconduct during litigation or vexatious litigation which inherently include the concepts of fraud, malice and bad faith.

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could well be that further analysis of this issue would resolve this matter against Plaintiff.

In deciding whether this case is "exceptional," the Court will look to the conduct of all parties at various stages of the parties' history. In its 1994 Opinion, the Court granted partial summary judgment to CMI on the issue of infringement. However, the jury denied judgment on the issue of the patent's invalidity and the Court declined to find inequitable conduct before the PTO. As noted in the 1995 Memorandum Opinion and Order (the "1995 Opinion"), the Court's comments were meant to foreshadow the ensuing issues and were made without reference to the elements required for the remaining common law causes of action. Likewise those very same comments, while relevant to the Court's determination of the "exceptional" case status, are by no means "findings of fact" for purposes of this analysis.

Much of the frustration evinced in the 1994 Opinion reflected the Court's disappointment and utter disbelief at the sloppiness of Intoximeters' actions. The Court remains irritated by the seemingly "untenable" litigation position which Defendants maintained. It was fair to assert that the Intoxilyzer 5000 did not produce valid results. But it was unfair to assert that any design which worked also infringed upon the patent.

This goes beyond mere mistake or sloppiness. In the Court's view, it represented an uncalled for arrogance, which contributed substantially to the intensity of this litigation. Placing CMI in this Catch-22, while frustrating, disingenuous and arrogant, does not, however, automatically require the Court to find an "exceptional case" under § 285.

Defendants' marketplace conduct appears more rational or acceptable. As this Court noted in the 1995 Opinion, Intoximeters carefully conditioned much of its language, investigated the design of the Intoxilyzer 5000, and received inquiries from customers concerning their professed problems with the 5000, but never made accusations of infringement in bad faith. Moreover, at times, the attack on the Intoxilyzer 5000's veracity smacked of healthy competition between rival companies--something which by nature will always be inherent in such situations.

While this Court stated under no set of circumstances could CMI have infringed the "418" patent, the Court is equally cognizant of the uncertainty and highly technical nature of patent related work. Moreover, the Court cannot ignore that once CMI realized it was developing a product that would infringe this very patent, it was forced to change the instrument's

design. Besides, from the start of the litigation CMI launched an attack to the very heart of Intoximeters' business--its patent. This attack failed. But it demonstrates the high stakes which the emotion and intensity of both sides brought to this litigation.

The Court recalls that prior to trial, Intoximeters offered to settle the entire controversy by agreeing that CMI's Intoxilyzer 5000 did not infringe the "418" patent and by agreeing to pay a substantial sum. As it turned out, this is all or more than CMI could possibly have achieved in litigation. CMI rejected that settlement. Those serious efforts at compromise were not the actions of a party engaging in vexatious litigation or other extreme tactics. In the face of such a good faith effort to settle both the monetary and infringement issues, the Court cannot conclude that the failure to award attorney's fees is grossly unfair. The good faith of such a settlement offer contributes strongly to the Court's ultimate conclusion to deny the motion.

This was hard fought and, at times, bitter litigation. Both sides leave the battlefield wounded, but with their lines unbreached. The Court sees no purpose nor manifest need to even out the comparatively minor injustices that may now remain.

The Court will enter an order consistent with this Memorandum Opinion.

UNITED STATES DISTRICT COURT

WESTERN DISTRICT OF KENTUCKY

AT LOUISVILLE

CIVIL ACTION NO. 93CV-265-L(H)

CMI, INC. **PLAINTIFF**

v.

INTOXIMETERS, INC., et al. **DEFENDANTS**

ORDER

The Court now considers Plaintiff's motion to award attorney's fees based upon a determination that this case is "exceptional" pursuant to 35 U.S.C. § 285. The Court being otherwise sufficiently advised,

IT IS HEREBY ORDERED that Plaintiff's motion for attorney's fees is DENIED.

This is a final appealable order. This 1st day of April, 1996.

= S =

JOHN G. HEYBURN, II
JUDGE, U.S. DISTRICT COURT

cc: Counsel of Record

APPENDIX E

IN THE UNITED STATES DISTRICT COURT
FOR THE WESTERN DISTRICT OF KENTUCKY
LOUISVILLE DIVISION

CMI, INC.
Plaintiff

VS.
Case No. 3:93CV-265-H

INTOXIMETERS, INC., et al.
Defendants

ORDER

The Court now considers Plaintiff's motion to award attorney's fees based upon a determination that this case is "exceptional" pursuant to 35 U.S.C. §285. The Court being otherwise sufficiently advised,

IT IS HEREBY ORDERED that Plaintiff's motion for attorney's fees is DENIED.

IT IS HEREBY FURTHER ORDERED that the Memorandum Opinion and Order and Judgment entered by this Court on November 1, 1994, and the Memorandum Opinion and Order entered by this Court on November 16,1995, are expressly incorporated herein by reference, and are hereby rendered to be final and appealable.

This is a final and appealable order.

This ~~1st~~ 15th day of April, 1996.

= S =
JOHN G. HEYBURN, II
JUDGE, U.S. DISTRICT COURT

ENTERED: April 16, 1996

APPENDIX F

NOTE: Pursuant to Fed. Cir. R. 47.6, this order is not citable as precedent. It is a public order.

United States Court of Appeals for the Federal Circuit

96-1353,-1367
CMI, INC.,

Plaintiff-Appellant,

v.

INTOXIMETERS, INC., MACQUORN FORRESTER, GLENN FORRESTER, and RANKINE FORRESTER,

Defendants/Cross-Appellants,

and

NATIONAL PATENT ANALYTICAL SYSTEMS, INC. and JOHN D. FUSCO,

Defendants-Appellees.

ON MOTION

Before RICH, LOURIE, and CLEVENGER, Circuit Judges.

LOURIE, Circuit Judge.

ORDER

Intoximeters, Inc., Macquorn Forrester, Glenn Forrester, and Rankine Forrester (Intoximeters) move to dismiss CMI, Inc.'s appeal as untimely. CMI opposes. We treat Intoximeters'

submission entitled "Reply Brief in Support" as a motion for leave to file a reply to CMI's opposition. If CMI appeal is dismissed, then Intoximeters' cross appeal must also be dismissed.

Briefly, on November 16, 1995, the United States District Court for the Western District of Kentucky issued a memorandum opinion and a separate order deciding all of the issues that remained in the case except for CMI request for attorney fees. Neither party appealed. On April 1, 1996, the district court entered an order denying CMI motion for attorney fees. This order expressly stated that it was a "final and appealable order." On April 5, 1996, CMI submitted a motion entitled "Motion to Render Decisions Final and Appealable." In its motion, CMI asked the district court to enter an "Order (retroactively applied to April 1, 1996), expressly incorporating the Opinions and Orders entered November 1, 1994 and November 16, 1995, therein, and thereby rendering those Opinions and Orders to be 'final and appealable', as of April 1, 1996." On April 16, 1996, the district court entered CMI proposed order, which repeated the language of the April 1, 1996 order and stated that the orders previously enumerated were "hereby rendered to be final and appealable." On May 7, 1996, CMI filed a notice of appeal with this court. It is this

appeal that is the subject of the present dispute.

Intoximeters argues that CMI appeal is untimely because it was not filed within 30 days of either the district court's November 16, 1995 order on the merits or the district court's April 1, 1996 order denying CMI motion for attorney fees. See Fed. R. App. P. 4(a); 28 U.S.C. §2107. Intoximeters asserts that the November 16 order was final and appealable because it disposed of all of the remaining issues with the exception of attorney fees. See Fed. R. Civ. P. 58; Budinich v. Becton Dickinson & Co., 486 U.S. 196, 202-03 (1988) (decision on the merits is a "final decision" whether or not there remains for adjudication a request for attorney fees attributable to the case). Further, Intoximeters argues that CMI April 5, 1996 motion did not extend the time to appeal because it did not seek a substantive change in the April 1, 1996 order. Federal Trade Comm'n v. Minneapolis-Honeywell Regulator Co., 344 U.S. 206, 211 (1952) (mere fact that a judgment previously entered has been reentered or revised in an immaterial way does not toll the time within which review must be sought). CMI contends that the time to appeal was extended by the April 15, 1996 order and that this court "effectively ruled" that the appeal was timely because it issued an order

granting CMI motion to reform the official caption.[1]

We determine that CMI appeal is untimely with respect to both the November 16, 1995 and the April 1,1996 orders. The bright-line test established by the Supreme Court in Budinich is clearly dispositive with respect to the finality of the November 16, 1995 order. For purposes of finality and appeal, a claim for attorney fees is not part of the merits of the action to which the fees pertain. Budinich, 486 U.S. at 200. Because all issues concerning the merits of the case were resolved by the November 16, 1995 order, that order was final and appealable and triggered the time for appeal. Thus, CMI appeal on May 7, 1996 was untimely by nearly five months. We note that the primary case cited by CMI, Johnson v. University of Bridgeport, 629 F.2d 828 (2d Cir. 1980), predates Budinich and, as noted by Intoximeters, was overruled by the Second Circuit even before the Supreme Court issued its decision. See Abrams v. Interco Inc., 719 F.2d 23, 27 (2d Cir.1983).

With respect to the finality of the April 1, 1996 order, we agree with Intoximeters that CMI April 5, 1996 motion did not extend the time for appeal. The district court s entry of the

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[1]We note that this court did not address the jurisdictional issue in the order granting CMI motion to reform the caption.

April 16, 1996 order did not alter CMI legal rights or obligations under the previous orders, but merely reiterated the final and appealable nature of the previous orders. Such, an immaterial change does not enlarge the time for filing an appeal. See Maxus Energy Corp. and Subsidiaries v. United States, 31 F.3d 1135, 113940 (Fed. Cir. 1994); United States v. Bealey, 978 F.2d 696, 699 (Fed. Cir. 1992). Because CMI appeal was not filed within 30 days of the April 1, 1996 order denying attorney fees, the appeal is also untimely with regard to that order.

Accordingly,

IT IS ORDERED THAT:

(1) Intoximeters' motion to dismiss CMI appeal no. 96-1353 is granted.

(2) Intoximeters' cross appeal no. 96-1367 is dismissed.

(3) Intoximeters' motion for leave to file a reply is granted.

(4) Each side shall bear its own costs.

August 20, 1996
Date

FOR THE COURT

= S =
Alan D. Lourie
Circuit Judge

cc: J. Bruce Miller, Esq.
Wilbur L. Tomlinson, Esq.
Patrick W. Michael, Esq.

ISSUED AS A MANDATE: August 20, 1996

APPENDIX G

NOTE: Pursuant to Fed. Cir. R. 47.6, this order is not citable as precedent. It is a public order.

United States Court of Appeals for the Federal Circuit

96-1353,-1367

CMI, INC.,

Plaintiff-Appellant,

v.

INTOXIMETERS, INC., MACQUORN FORRESTER, GLENN FORRESTER, and RANKIN FORRESTER,

Defendants/Cross-Appellants ,

and

NATIONAL PATENT ANALYTICAL SYSTEMS, INC. and JOHN D. FUSCO,

Defendants-Appellees.

ON MOTION

Before RICH, LOURIE, and CLEVENGER, Circuit Judges.

LOURIE, Circuit Judge.

ORDER

CMI, Inc. moves for reconsideration of the court's

August 20, 1996 order granting Intoximeters, Inc., Macquorn Forrester, Glenn Forrester, and Rankin Forrester (Intoximeters) motion to dismiss CMI's appeal as untimely. In the alternative, CMI moves for a remand to the United States District Court for the Western District of Kentucky. Intoximeters opposes. We treat CMI submission entitled "Supplement to Motion of Appellant, CMI, Inc. to Reconsider. . ." as a motion for leave to file a supplement to its motion for reconsideration. Finally, CMI moves to supplement the record on appeal to include an order entered by the district court on October 18, 1996.[1]

On November 16, 1995, the district court issued a memorandum opinion and a separate order deciding all of the issues that remained in the case except for CMI request for attorney fees pursuant to 35 U.S.C. § 285. Neither party appealed. On April 1, 1996, the district court entered an order denying CMI motion for attorney fees. This order expressly stated that it was a "final and appealable order." On April 5, 1996, CMI submitted a motion entitled "Motion to Render Decisions Final and Appealable." In its motion, CMI asked the district court to enter an "Order (retroactively applied to April 1,

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[1]Apparently, CMI recently filed a motion with the district court requesting it to alter or amend its April 15, 1996 order. In the October 18, 1996 order, the district court declined to take any further action in the case. In any event, this court will not consider an order that was entered after this court received CMI notice of appeal.

1996), expressly incorporating the Opinions and Orders entered November 1, 1994 and November 16, 1995, therein, and thereby rendering those Opinions and Orders to be 'final and appealable', as of April 1, 1996." On April 16, 1996, the district court entered CMI proposed order, which repeated the language of the April 1, 1996 order and stated that the orders previously enumerated were "hereby rendered to be final and appealable." CMI filed a notice of appeal with this court on May 7, 1996. On August 20, 1996, we dismissed CMI appeal on the ground that it was untimely with respect to both the November 16, 1995 and the April 1, 1996 orders. See Budinich v. Becton Dickinson & Co., 486 U.S. 196, 202-03 (1988) (decision on the merits is a 'final decision" whether or not there remains for adjudication a request for attorney fees attributable to the case); Maxus Energy Corp. and Subsidiaries v. United States, 31 F.3d 1135, 113940 (Fed. Cir. 1994) (district court's "immaterial change" to order does not enlarge the time for filing an appeal).

CMI raises two new arguments concerning the timeliness of its appeal. First, CMI argues that an exception to the Supreme Court's ruling in Budinich v. Becton Dickinson & Co., 486 U.S. 196, 202-03 (1988), is applicable. CMI argues that some courts have begun to create exceptions from the bright-line rule established in Budinich where the request for

attorney fees is an "integral and material part of the relief being sought." See, e.g., Justine Realty Co. v. American Natl. Can Co., 945 F.2d 1044, 104748 (8th Cir. 1991) (fees that are "substantively a part of plaintiffs compensation" involve the merits of the claim and are not collateral under Budinich). CMI contends that its request for fees pursuant to section 285 may not be separated from the merits of the case, and, accordingly, CMI was not required to file an appeal until the district court had ruled on its request. Even if we assume, however, that such an exception would have permitted CMI to delay its appeal until the issuance of the district court's final order concerning attorney fees, CMI did not file a timely appeal from that order. Thus, CMI's argument is unavailing.

CMI also cites this courts decision in PPG Industries, Inc. v. Celanese Polymer Specialties Co., 840 F.2d 1565 (Fed. Cir. 1988), for the proposition that a case is not "final and appealable" until a district court has ruled on the issue of exceptional circumstances. CMI is in error. PPG Industries held only that a district court's order awarding attorney fees under section 285 is a final decision over which this court may exercise appellate review. Further, PPG Industries was issued two months before the issuance of Budinich. In our August 20, 1996 order, we noted that in its opposition to the motion to

dismiss, CMI had cited Second Circuit law that predated Budinich and had been overruled by the Second Circuit even before Budinich was issued. Budinich is clearly dispositive with respect to the timeliness of this appeal.

Second, CMI argues that "excusable neglect" exists to authorize an extension of time for filing a notice of appeal. CMI asserts that the doctrine is properly invoked because CMI "acted properly and awaited the final ruling of the District Court with regard to all issues in the case." Compare Osterneck v. Ernst & Whinney, 489 U.S. 169, 179 (1989) ("unique circumstances" doctrine may excuse an untimely appeal where a party has performed an act which, if properly done, would postpone the deadline for filing its appeal and the party has received specific assurance by a judicial officer that this act has been properly done).

CMI took no action to postpone the deadline for filing its appeal, and it did not receive any assurance from the district court that the deadline had, in fact, been extended. To the contrary, the district court stated that its April 1, 1996 order was a "final and appealable order." More significantly, this court is precluded from enlarging the time for filing a notice of appeal. See Fed. R. App. P. 26(b). The district court may, upon a showing of excusable neglect or good cause, extend the time for

filing a notice of appeal upon motion filed not later than 30 days after the expiration of the time authorized by statute. Fed. R. App. P. 4(a)(5). CMI did not file such a motion.

Finally, we consider CMI alternate motion for a remand to the district court. CMI requests that the district court be permitted "to consider CMI Motion pursuant to FRCP 60(a) and/or (b), asking the District Court to 'correct' its mistake." Apparently, CMI desires that the district court issue, approximately nine months after the fact, an order stating that it did not intend its November 16, 1995 and April 1, 1996 orders to be final and appealable. However, it is not appropriate to remand solely for the purpose of creating jurisdiction where none exists. If we were remand to the district court for such a purpose, the timing requirements established in Fed. R. App. P. 4(a) would be nullified. Thus, the motion is denied.

Accordingly,

IT IS ORDERED THAT:

(1) CMI motion for reconsideration is denied.

(2) CMI alternate motion for a remand is denied.

(3) CMI motion for leave to file a supplement to its motion for reconsideration is granted.

(4) CMI motion to supplement the record on appeal is denied.

FOR THE COURT

12-16-96
Date

= s =
ALAN D. LOURIE
Circuit Judge

cc: J. Bruce Miller, Esq.
Wilbur L. Tomlinson, Esq.
Patrick W. Michael, Esq.

APPENDIX H

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
AT LOUISVILLE
CIVIL ACTION NO. 3 :93CV-265-H

CMI, INC. **PLAINTIFF**

V.

INTOXIMETERS, INC., et al. **DEFENDANTS**

ORDER

Plaintiff, CMI, Inc. has filed a motion with this Court apparently requesting it to alter or amend its Order dated April 15, 1996. The Court has reviewed the pleadings as well as the arguments of the parties before the Federal Circuit and concludes that they are a great deal less straightforward than originally anticipated. The Court notes for instance that CMI apparently took the position before the Federal Circuit that it was foreclosed from filing a Rule 59 or Rule 60 motion after the Court's order of November 16, 1995. In any event, the Court concludes that regardless of what its intentions may have been with respect to various orders--and it was not its intent to create an appealable order on November 16, 1995--it is the job of the Federal Circuit to determine their legal effect. The Court is powerless to change its docket entries over one year after the fact. Moreover, it would be a bad idea. By attempting to do so

the Court may create more confusion or another perceived injustice. The Court is confident that the Federal Circuit can handle this matter appropriately as it has the power to do. Being otherwise sufficiently advised, The Court hereby respectfully declines to take any further action in this case.

This 18th day of October, 1996.

= s =
JOHN G. HEYBURN, II
JUDGE, U.S. DISTRICT COURT

ENTERED: October 18, 1996

APPENDIX I

UNITED STATES DISTRICT COURT
WESTERN DISTRICT OF KENTUCKY
AT LOUISVILLE

CMI, INC.,

Plaintiff,

VS . 3:93-CV-00265

INTOXIMETERS, INC., et al.,

Defendants.

* * * * * * * * * *

HEARING IN CHAMBERS BEFORE HONORABLE JOHN G. HEYBURN II, U.S. DISTRICT JUDGE, AT LOUISVILLE, KENTUCKY, ON NOVEMBER 1, 1995.

ALAN W. WERNECKE, RMR
Official Court Reporter
221 U.S. Courthouse
Louisville, KY 40202
502-589-0395

disagree with, but they would have a question as to what the attack on the instrument was based on and whether that dealt with patent issues or not.

I really see two things. I see the actual conclusion of exceptional circumstances before you really get into whether an evidentiary hearing -- I guess what I am saying is that I don't think you necessarily need an evidentiary hearing to make the conclusion. I guess it can be briefed. However, if the court bases its conclusion on certain facts that they deem are in dispute, I think that's where an evidentiary hearing might come from.

THE COURT: I think as I understand it, conceptually exceptional circumstances arise out of a patent action, either one for infringement or for invalidity of a patent. So the determination of exceptional circumstances arises out of conduct which is involved with the claim o.~ non-infringement as it was here or the claim of patent invalidity. So to the extent you would have a right to special circumstances, it would arise out of the fact that you claim non-infringement and I ruled in your favor, and there would be so.me egregious circumstances that caused you to have to file your claim of non-infringement. Therefore, the remedy would arise out of that. The facts supporting the remedy would be necessarily narrow. The remedy would be necessarily narrow because the damage is

having to file the non-infringement action. So we are basically talking about attorneys' fees, but we are not talking about all attorneys fees. We are talking about a narrow scope of attorneys, fees. That's the way I look at it conceptually. I don't know if that's right or not.

MR. CRONAN: I think that's close to the way we ar looking at it, based on sketchy research at this point. It appears that, first of all, it is a question of the court's -- it's a matter of the court's discretion as to the circumstances under which it is appropriate, that the factor' appear to be -- this is where I'm not clear. The factors appear to be the motive underlying litigation. It appears to be based on some kind of bad faith motivation in filing a lawsuit.

THE COURT: See, here it is the reverse, though.

MR. CRONAN: I understand. Most of the case law -

THE COURT: Yes. Most of the case law address the other situation.

MR. CRONAN: It's like the prevailing party in the lawsuit gets to recover attorneys' fees because they shouldn't have been sued in the first place.

THE COURT: Here it is the reverse. Did CMI have no choice but to file the lawsuit, which they ended up winning, at least in part because of the conduct of

Intoximeters, which was so egregious that required them, although perhaps short of supporting a cause of action under any common law theory, that was nevertheless egregious enough that would require this cause of action.

MR. CRONAN: The other questions that we would get in that I think are fact questions, although we may not end up with a factual dispute about this, would be the amount of the services with respect to which fees might be recoverable. For example, the court has raised the question of whether they had to bring an action to prove non-infringement, and I get the sense that the court is leaning in favor of that finding. If that were the finding, our position would be that issue was resolved by summary judgment prior to trial.

THE COURT: Yes.

MR. CRONAN: If you would not recover attorneys' fees incurred in the course of the trial because Intoximeters prevailed on the issues that were tried, there was an affirmation of the validity of the patent, and that was the issue that was actually tried because the court granted summary judgment beforehand.

THE COURT: That's certainly an issue. I think that still simply the fact that they believe they had to file an action for non-infringement and that they were successful, that alone will

not support exceptional circumstances, and I think the issue of exceptional circumstances was not decided...